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## EDITORIAL

WITH the publication of this issue, the Indian Journal of Public Administration is entering upon the twentieth year of useful service in the cause of Public Administration. We believe that this is an appropriate moment to look back on what has been achieved so far, identify the gaps, recognise the newer developments and trends in administration and plan for venturing forth into 'fresh fields and pastures new'.

The first issue of the Journal appeared in 1955. On the very first page, appropriately enough, these momentous words of Jawaharlal Nehru, the then President of the Institute and the architect of our nation, from his address at the inauguration of the Indian Institute of Public Administration were reproduced: "Administration is meant to achieve something, and not to exist in some kind of an ivory tower following certain rules of procedure and Narcissus-like, looking on itself with complete satisfaction. The test after all is the human beings and their welfare."

The years since have witnessed a conscious and deliberate attempt on the part of our Government to work for these objectives. A new type of administration, subserving the needs of development in all fields, social, economic and industrial—has been gradually evolving. Our Journal has been reflecting this evolutionary process, with all its inadequacies and achievements.

While the main focus in the articles in its pages has been on Indian Administration, we have keenly followed the developments in other countries of the world. We have published a number of interesting articles on problems of administration in other parts of the world, written not only by Indian experts, but also by savants of learning elsewhere. Administration of international agencies, repercussions of international relations on aspects of national administration, notable experiments carried out in the varied fields of public administration elsewhere—all these have been covered. The new horizons in public administration as related to managerial perspectives and behavioural sciences have been duly reflected in the Journal. Gradually, therefore, our Journal, from its modest beginning in 1955, has acquired an international status.



Particular aspects and problems of public administration, both of lasting value and contemporary interest have received due attention in the pages of the Journal. Special issues have been brought out on specific topics like 'Administrative Reforms since Independence', 'The Collector in the Nineteen Sixties', 'Tasks and Priorities in Administrative Reforms', 'Science and Government', and 'Multi-level Planning'. It is commonly recognised that the Journal has had a significant impact on the study and practice of public administration in our country. The usefulness and popularity of the Journal especially in the academic circles can be gauged by the frequent requests we receive for reproduction of many of its articles in standard Studies on Public Administration.

The experience of these two decades will act as a spur for further effort. We are keenly aware of the newer and urgent problems, facing the administration in the country. With rapid urbanisation, economic development and planning, and the maturity of the political process, new problems are being thrown up, and new vistas are unfolding themselves before us.

We may take this opportunity to say a few words about the current issue. It includes many thought-provoking articles and covers a wide variety of subjects. Dr. Vepa's article stresses the need for basing our development programmes on our own conditions in a realistic manner. Dr. Thimmaiah highlights some of the neglected aspects regarding the Finance Commission. Kumari Ramesh, in a very interesting contribution, shows how an investment corporation has, by its policies and administrative procedures, been able to help actively in industrial development. The importance of training for administrators needs no stress, and there are three articles on training, one by Shri Saxena on Training and Development in Government, another by Dr. Gaikwad on Training for Agricultural Management, and a third by S/Shri Haragopal and Murali Manohar on the Need for Training for the Indoor Staff. Panchayati Raj is the subject of three other contributions, each dealing with a different aspect. The Panchayati Raj at present is at the cross roads and merits a new look. Dr. Sharma surveys the Rajasthan experiment of constituting a service commission for personnel in Panchayati Raj. Dr. Puranik deals with the effect of political influence in the field of Panchayati Raj, while Shri Anter Singh discusses the contribution of Panchayati Raj to administrative efficiency. There are two prize-winning essays included in this issue, one by Dr. Motiwal dealing with the problems in the administration of justice and the other by Dr. Viswanathaiah on the historical aspects of development of administration in the Mysore State. The final article by Shri Rajan on Public Policy and Radical Social Change analyses certain phenomena in our system of democracy.

Our readers will be happy to learn that in cooperation with the Madhya Pradesh Hindi Granth Academy, many of the articles in the Journal will be available in Hindi in *Lok Prashasan*, a new Journal which the academy will be bringing out. Efforts are also being made to bring out similar journals in other regional languages with the co-operation of other institutions in different states.

We would like to take this opportunity to express our gratitude to the previous editors who have carefully nursed the Journal in its earlier years. We would also like to thank the members of the Editorial Board for their valuable help. It is only meet and proper that we should thank our subscribers, readers as well as the contributors, who have helped us in building up the Journal. We would like to wish our readers a very happy new year and prosperous future.

T.N. Chaturvedi

# THE INDIAN JOURNAL OF PUBLIC ADMINISTRATION

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## IMPLEMENTING DEVELOPMENT PROGRAMMES\*

*Ram K. Vepa*

ONE of the important lessons developing countries are painfully learning is that well-formulated plans are necessary, but not sufficient; and that plans, however good on paper, mean little unless they are implemented in the right spirit and with devotion. A well drafted plan is no guarantee that it will succeed and the more crucial phase is now seen to be the implementation of it. In fact, the record of planning of most countries that have won freedom recently, is full of good plans drawn up by a team of able experts, both native and foreign, but, in the process of implementation, they all seem to founder.

Right implementation is particularly necessary in a programme like that of Sarvodaya which ultimately relies on individual effort and believes in the individual's full participation in governing himself. Sarvodaya does not believe in 'over-organisation' and 'over-centralisation' and believes that such a step leads ultimately to disintegration of social values. Sarvodaya seeks to develop new relationships of Man with his Environment, with the Society in which he lives and the Community of which he is a part. Such a total change requires a radical transformation of existing institutions and techniques and, above all, a change in the attitudes of those who operate these institutions. In fact, Gandhiji who placed the primacy of means over ends, was acutely conscious that more than the ends themselves, it was the means adopted that would determine the nature of the ends. Ends are not reached by mere statements or declarations; they are attained by specified steps taken by individuals or groups and by the nature of institutions

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\*Extract from a forthcoming study on "Gandhiji, Sarvodaya and New Technology" by the author.

established. Hence, the implementation aspect becomes even more important in a programme like that of Sarvodaya which prefers to rely on the collective wisdom of the community rather than on the exclusive wisdom of a few people at the top.

In Sarvodaya, planning has to take place from below and not from the top; in fact, this is the only way it can be implemented. A major weakness of the existing planning effort is that the stimulus and inspiration for the entire effort seems to stem from New Delhi and the State capitals and not from the villages and block, not even the district towns. These levels which are the operating ones and on which depends the ultimate success or failure of the experiment are only superficially involved in the process of planning and are regarded more as instruments rather than participants. This was, perhaps, an influence of the Soviet style of planning but one had missed the fact that in that country, the communist party extends its ramifications all over the land and acts as the coordinator and synthesises and helps even to monitor the pace of the programme. It also helps to feed back the views of the field personnel to the policy formulating levels and thus helps to make policies fit the field conditions. In India, the situation is totally different and solutions thought of at the higher levels are often applied rigidly all over the country and field personnel given little choice to depart from the framework drawn up at the national or state headquarters.

It needs to be recognised, however, and this is a point that cannot be over emphasised, that there are in fact no all-India solutions for any problem. India is too vast and diverse a country to adopt such an approach; every solution needs to be modified or adapted to suit the particular circumstances imposed by geography, climate, traditions and custom. By trying to impose an artificial uniformity—in the mistaken belief that it will lead to unity—one will only weaken the effectiveness of the scheme for, however well conceived, it cannot, in all its outlines, be suitable for as widely differing regions such as Kashmir and Kerala. There is need, therefore, for an in-built flexibility in every scheme emphasising the main points and leaving the details to the field personnel at the district, block, and village level. It is only such a measure of freedom which will generate a sense of initiative amongst its personnel and give them a feeling of participation in the mighty task of national reconstruction.

Such a step, however, involves some pre-requisites: first, that the administrative set-up in the country is completely overhauled so as to provide for genuine decentralisation and adequate authority is delegated

at all levels. Economic decentralisation cannot take place unless it is accompanied by a similar process in the political and administrative levels. At least, in the former, an attempt has been made towards such decentralisation through the system of Panchayati Raj, although there is still need for effective decentralisation in this regard. But the administrative apparatus is still largely hierarchical with the same pattern that had obtained during the days of foreign rule. Certainly, the Indian administrative machinery is one of the best in any developing country but its weakness, a legacy from the past, is over-centralisation of decision-making at levels utterly remote from the point where it is to be effected. What ought to be done at the village or taluka level goes to the district headquarters; what ought to be done at the district is decided at the state and what ought to be decided by the state goes to the national level. The result is that the ultimate solution reached represents a distortion of reality because it has been devised by people who are not in close touch with the actual field conditions; more importantly, it causes delay with all its attendant consequences of corruption and other evils.

This over-centralisation was, perhaps, inevitable in the days of the British rule, when the pattern was to rule the entire country through 500 British officers and every decision considered important had to be made by them. But it seems strange that it has persisted for more than 25 years after freedom and in spite of numerous Administrative Reforms Commissions that have pondered over this matter, comparatively little has been done to loosen the procedural nightmare of rules and regulations that are familiar to any one dealing with government offices even in simple matters. The spirit of distrust that was the hallmark of the old administration must give way to a greater trust and faith in the innate integrity of our people; it is also true that most people live up to a challenge when faced with it. There is no reason to doubt that the vast majority of our administrative personnel will discharge their responsibilities wisely and well, provided these are given to them.

Delegation of authority necessarily carries with it accountability to a higher operating level in the administrative pyramid. Today, since little authority is vested in the operating levels, there is also little of responsibility and accountability at these levels. One can never really fix the responsibility for any decision on any single person: some time back a national newspaper had asked the question—'Who is the Government'? Is it the Minister in charge of the portfolio, the Secretary of the Department, or at progressively lower levels, the field officer, or is it some lowly clerk at some remote office? Decision-making goes

through so many layers that one never really knows who has made the final decision.

There is, therefore, need for simplification of codes and procedures that have today become so tangled that only few can unravel its esoteric mysteries. It would have been preferable that, instead of making *ad hoc* adjustments with the pre-independence codes, a fresh start had been made, and a new set of simple rules and regulations drawn up that are intelligible to every citizen. Responsibilities must be clearly specified at all levels and the tendency to 'pass the buck' above or below should be discouraged. A suitable system of incentives—both rewards and punishments—must be instituted so as to act as a fillip to the administrative personnel; today, good work is rarely rewarded and bad work remains unpunished. In such an environment, it is no wonder that even those, who are enthusiastic and are eager to do hard work, soon become dispirited and lazy since they find such persons seem to have the best of both worlds. While, admittedly, nepotism and favouritism are factors to be reckoned with in any assessment of merit, it should not be beyond the ingenuity of the administrators to devise a system of objective assessments that will provide suitable rewards for a job well done.

There is need for revamping the entire system of working in public offices and make them more in tune with the requirements and traditions of the country. Firstly, the present duration of working hours are too short for any civilised country and utterly unsuitable to the Indian conditions. Most public offices rarely put in more than 5 hours of work per day which is almost half of what other countries do. Further, to start the day's work after 10 a.m. in a tropical country seems absurd when getting up with the dawn is a traditional way of life. The present system was meant for the British personnel so that they may get up late, have their breakfast and begin work only at 10 or 11 a.m. Particularly in the hot summer months, it is impossible to do any work during the day and it is no wonder that the efficiency in offices—which is low in any case—becomes even lower during this period. To be fair, one must admit that most government offices are still not adequately equipped with modern amenities; many of them are still without electricity and telephone and this, in turn, has an adverse impact on the efficiency of offices.

The number of holidays the public offices in India enjoy is too large by any standard. In the name of secularism, all religious holidays are enjoyed by all, irrespective of the fact whether these are actually observed. Then there is the habit of declaring a holiday on the death

of a VIP; significantly, when Dr. Bhabha, the architect of India's atomic energy programme died tragically in an air crash some years back, the great institution he had developed refused to take a holiday and instead worked for longer hours as a mark of respect to his memory. There has been a welcome move in recent months to cut down on such holidays except of course in a real national mourning; in fact, when Winston Churchill passed away, mourners in London were allowed off only one afternoon to enable them to pay homage to his memory. But in India, holidays are declared indiscriminately and persons released from duty flock to places of entertainment making the whole affair a mockery. There is also the need to re-orient the holidays, particularly in the rural areas, to mesh with the agricultural operations so that it is possible for individuals who have interests in the land to look after their affairs and also provide opportunity to the youth to engage in constructive service at that time.

An important reform in all offices—public or private—is the need for greater courtesy and helpfulness on the part of the staff towards the public. Today, rudeness in such institutions has become so much the rule that any courtesy becomes a matter of surprise. It is a pity that even private sector offices have become infected with the spirit of rudeness and, what is worse, a general attitude of unhelpfulness. Even minor functionaries behave like potentates dispensing justice and the lot of people hanging around these offices to see the 'boss' is indeed pitiable. There are hardly any arrangements for waiting; one is never really sure as to when one would be called in or whether one would be heard at all... and the visit to such an office becomes an ordeal—unless one knows 'somebody' who can manage to fix matters.

An important requisite for adequate delegation is the need for officials to acquire first-hand knowledge of the rural conditions. In this regard, conditions today have actually become much worse with the modern means of transportation available such as the jeep, which enables a person to go whizzing round the country-side, visit a number of villages and return by evening to the comfort of his home. Gone are the days, when officials used to camp in the villages by pitching tents, if necessary, and spend an evening in the village to see for themselves how things are going on. Today, the jeep only throws 'dust in people's eyes', literally and metaphorically, and the time spent in a village is too short to provide any real insight into the conditions of life obtaining there. Even this cursory touring is not being done as much as it ought to be done, since district officials are too pre-occupied with visits of Ministers and other VIP's that they do not find it possible to leave headquarters for any reasonable length of time. There is,



therefore, a tendency to rely on reports from their subordinate offices which are not cross checked by actual visits and live contact between the senior officials and the people affected is lost. This makes it difficult for people outside the headquarters to meet the top officials and represent to them difficulties they may have in any matter; too much reliance is placed on the reports of local officials who tend to become too powerful.

Another consequence of the lack of personal touch in administration is the fact that officials do not feel strongly committed to the programmes and problems they are dealing with. Such commitment comes through a personal touch but today there is a tendency to see such a programme as just another scheme and not in terms of the persons involved. No one who has not himself seen the devastation of a fire or flood, or suffered in times of scarcity can feel as strongly when all he is familiar with is the report given by his subordinates. When the Prime Minister often speaks of 'commitment' she is in fact referring to this 'feeling of righteous indignation' which officials ought to have rather than any departure from accepted codes of objectivity. More and more, administration is becoming a 'management' technique — and not one involving the hopes and aspirations of large masses of people. While the new techniques are all to the good at the planning levels, personnel at the field levels cannot afford to lose the human touch since, in the ultimate analysis, administration is for men, and not the other way round. In any case even good administration is not always a substitute for a humane one, particularly if the programme is designed to meet the problems of people.

Perhaps, one reason why officials seem to lose the personal touch in administration is due to the fact that the weightage accorded to familiarity with rural problems seems to have decreased. District and subdivisional experience which at one time was considered an essential part of the officers' service before being drafted to policy making levels at the state and centre is increasingly regarded as 'irrelevant' to the compulsions of modern society. More weight seems to be accorded to those who can turn out neat phrases or mouth high-sounding jargon borrowed from the Harvard Business Review or International Management Seminars and the idea that the experience a young official acquires in contact with live situations in the village is valuable is viewed as an outdated concept. This is in direct contrast to the ideas of Gandhiji who not only insisted that India lives in its villages but felt that no one can understand the village unless one lived in it for which reason he chose a remote village in the heart of India—Sevagram near Wardha—as his headquarters for the last 20 years of his life. The naive belief



that what happens in Bombay or Delhi is somehow more important than what happens in the village needs to be countermanded. Admittedly, the metropolitan towns are important but the collective needs of the thousands of villages are too important to be ignored; perhaps, it is partly due to the numerous seminars held in air-conditioned halls of large cities that a feeling is created which seems to regard the village as an appendage of the town.

If the Sarvodaya Programme is to be successful, there is need to re-emphasise the importance of the village in the pattern of administration and young officers encouraged to work with them and become familiar with their way of life and thought processes. For this purpose it may become necessary to insist—as is being done in Cuba or China—that all public servants—from the highest to the lowest—must put in at least 15 days' service in the village annually. This will give them a chance to get acquainted with the actual problems of the village and also break down the 'invisible wall' that seems to exist today between the officials and the public—particularly in the rural areas. It will provide a new sense of rapport between the urban and rural populations and also enable a vast majority of the population to come into greater contact with administration. In most countries, every able-bodied citizen has to put in at least one year of military service as part of his responsibility to the country; two weeks annually spread over 25 years provide a continuing touch with the hopes and problems of the Indian village.

Simultaneously, with the need to develop 'committed' official cadres, is the problem of generating equally committed local leadership that would participate more effectively in the process of development. The Panchayati Raj system was partially meant for this purpose and although it was useful—in the initial period at least—in throwing up a new leadership in the village, the early momentum did not survive and the Panchayati Raj institutions both at the village and block levels, have largely been taken over by vested interests. In a sense, the position is, therefore, worse than before; having established an institutional framework for the new leadership to operate, they have become instruments for local pressure groups, controlled by rich landlords or affluent middlemen. This makes the mass of the people somewhat cynical and apathetic or even positively hostile, particularly when they see before their very eyes, an obvious dichotomy between professions preached on public platforms and practices resorted to by most politicians.

There seems to be, however, no conscious attempt to draw the

progressive elements of the country and train them for a career in political leadership. Gone are the days of the freedom struggle when such a career meant sacrifice, hardship and imprisonment; there was an aura of martyrdom and high esteem around it which attracted the idealism and dedication of the ablest youth of the country. There was also a galaxy of inspiring leadership such as rarely has been thrown up by any developing country; the last of the Titans was Jawaharlal Nehru and he was tallest of them all, excluding only Gandhiji . . . . Today, the new entrants to political leadership at the state and district levels are mostly the *nouveau riche* who have money to spend on elections; the careerists and adventurers to whom political career means power. Leadership at the national level is still good as a legacy from the pre-independence days but what really counts in the long run is the type of people that occupy such positions as Sarpanch of a Gram Panchayat, or Panchayat Samiti or the Chairmanship of a Zilla Parishad.

Perhaps, it is more true to say that at these levels there is no healthy politics at all. Jayaprakash Narain and some others have pleaded for keeping politics out of the Panchayati Raj institutions; this is good, if it were possible, but in practice one cannot insulate any level from the impact of healthy political activity. What is needed and can be done is to identify youthful elements in rural areas and train them consciously to progressively increasing levels of responsibility. The Panchayati Raj institutions are meant precisely for this purpose; just as the young administrator has to put in years of service at the sub-division and district levels before being drafted for work at the state headquarters or at the Centre, there should be a convention that no one should be a State Minister unless he has been a Chairman of a Zilla Parishad and no one becomes a Chairman unless he has handled a Samiti and so on down the line. This is not to deny that there might be a few exceptional persons who will come to the top without going through this process but what one is speaking of is the rule rather than the exception. The political parties must accept their responsibility to train their cadres for assuming increasing responsibilities of leadership at all levels and use the Panchayati Raj institutions for this purpose. The specific manner in which this is to be done is for each party to decide but what is important is the recognition that politics in a democracy is too important to be left to amateur politicians, whether of the left or right.

It is significant that Gandhiji had himself envisaged the need for a cadre of dedicated constructive workers to face the challenging tasks ahead of the country after winning freedom. Just a few months before his martyrdom in January 1948, he had formulated a draft constitution

disbanding the National Congress which had spearheaded the country's fight for freedom and had recommended its reconstitution into a Lok Sevak Sangh—a truly national society for the service of all people. The Sangh, he envisaged, would train workers in the fundamental philosophy of Sarvodaya—Truth, Non-violence and Tolerance—so as to best serve the 18 point Constructive Programme that was close to his heart. Most items of his programme are even today relevant to the development of the country—they included communal unity, removal of untouchability, prohibition, khadi and village industries, village sanitation, basic and adult education, status of women, development of regional languages, economic equality, adoption of Hindustani as the national language, organising kisans and industrial labour, welfare of the adivasis, care of lepers and proper training of students. The 'constructive workers' after training would be sent to the villages to become active agents for the transformation of Indian society. Only two days before his tragic death, Gandhiji had written that "the Congress has yet to win economic freedom, social and moral freedom. These freedoms are harder than the political, if only because they are constructive, less exciting and not spectacular." In the years since his death, the attraction of constructive work has steadily become less and less and the programme has been left to a few well-meaning individuals who can hardly work on the scale necessary to make a meaningful impact on these problems.

India is learning, since its freedom, how difficult it is to motivate people to the tasks of peace and reconstruction, now that the excitement of the freedom struggle is over. The sense of exhilaration which the non-cooperation movement generated in the country—particularly in the youth—is no more. Pandit Nehru had tried in the early days of freedom with his charisma to evoke enthusiasm for the process of development but as his vigour diminished, the enthusiasm faded away giving place to cynicism and a spirit of materialism. The youth of the country has been particularly affected and there is too much pre-occupation with jobs, employment and material security which is often seen to be obtained not through merit and hard work but through influence and right connections. This is only a reflection on the changing social values which rates acquisition of money, by whatever means, as the surest way of gaining power over the lives of others. The more sensitive and idealistic of the youth who are disgusted with the 'rat race' are opting out of the realities of every day life and seek a life of unconventional living but the vast majority can hardly afford such a 'luxury'. There is in all young people a dilemma between their innate sense of idealism and the false values that society seems to respect and honour.

The only sure way out of this situation is that society itself must first develop new values and attitudes which prizes goodness and right behaviour as more important than bank balances. There should be a greater sense of social discipline and public disapproval of all types of corruption—whether it is one of money or of favouritism or nepotism, based on caste or linguistic considerations. In such an atmosphere, it would be relatively easy for the creative energies of youth to be harnessed to the development tasks of the nation. The young, by their energy and freshness of outlook, can indeed transform the ‘dung heaps’ of villages to become the ‘Gardens of Eden’, as Gandhiji had hoped. It is no accident that Mao used the youth of his country to effect the ‘Cultural Revolution’ with a view to sweeping away all that was old and outdated—institutions, attitudes and people and while many excesses have been committed, there is no denying the rationale of such a purification drive that would bring back the spirit of the Long March of the Thirties. Cannot something be done, one wonders, in our own way, to generate a new spirit of idealism and fervour amongst the Indian youth and recapture something of the spirit that moved an earlier generation in the freedom movement?

This can be done provided there are two factors: one is a dynamic organisation with specific objectives and concrete programmes of action and the other a leadership that can inspire and guide people. As regards the former, India’s administrative apparatus should not find it difficult to set up a nationwide network of Sarvodaya centres in which youth can be allocated specific tasks for spreading the message of the constructive programme. This can be linked with the scheme of enabling young people to spend at least a year in the villages after or during the college period before they move on to the job of earning their livelihood. The long summer vacations which are now largely wasted in idle pursuits can be made useful and purposeful if the centre can organise specific activities in which the young can participate. If boarding and lodging are taken care of, there is no doubt that most of the young will respond and will welcome the opportunity to engage themselves in useful activities instead of frittering away their time and energy in idleness. As regards the second, we have happily with us today a leader who has inherited the mantle of Gandhi and Nehru, young enough to appreciate some of the aspirations and idealism of youth but also wise enough to realise that these should be channelled for constructive purposes through effective organisation.

Leadership is, however, more than making a mass appeal. Leadership in developing nations needs to inculcate a new sense of awareness, a new perspective, a willingness to assume responsibility and a

readiness to bear the burden of 'hard options'. Leadership is what Churchill displayed when, on assuming office during the darkest days of the Second World War, he offered his countrymen nothing but "blood, toil, tears and sweat". In our own country, Gandhiji promised little but sacrifice and imprisonment to those who rallied to his cause in the days of the freedom struggle. So did Subhash Chandra Bose when he took over the leadership of the overseas Indians at Singapore and proceeded to organise a new Government, a new army, a new flag and a new anthem. But the way people everywhere respond to a truly dedicated leadership is conclusive proof that it is not people who are 'soft' but, quite often, the leadership is not bold enough to pose the challenge to them. Recently, when the Prime Minister called on the people during the India-Pakistan conflict of 1971 to make more sacrifices, there was hardly a dissenting voice; and the country was never more united than when it was put to the test of hardship and suffering.

As Romesh Thapar, the well-known Indian journalist, remarks: "We tend to look for short cuts to our dream world. There are no short cuts. We are in the midst of two revolutions in one . . . If economic theory dominated the first half of this century, social engineering will have to play an increasingly pertinent role in the second half of this century. . . ." Explaining further he says: "Scientific agriculture inevitably dictates large holdings, giant farms for supplementary foods. No single mechanical pattern can be imposed because of ideological dogmas. Similarly, we have to demarcate the areas in industry . . . . To encourage centralised monoliths in every branch of industrial production on the basis of dehumanised economies which ignore the social dimensions of growth is to invite disaster. Industrial growth must be so designed as to prevent an explosion of urbanisation as we have come to understand it. We must organise an even spread of production points, both large-scale and small-scale. We must not think in terms of cities which are concrete jungles but in terms of the spreading habitat. This immediately poses the question of preventing through natural processes the migration of millions from the village to town. In other words, we have immediately to conceive economic growth and the resulting facilities in such a way that the migration is halted. Village crafts must be equipped technologically to link to a national market and a whole sphere of activity must be reserved for them. We do not want a do-gooder approach but a highly scientific technical exercise. Facilities like TV should consciously be concentrated in the rural areas to anchor the population. Indeed, top priority must be given to bridging the gulf between village and town—and the cost must be calculated in perspective, in terms of the totality of human

growth or else the effort of decades will be drowned in the anger and frustration generated in the shanty towns we create."

The "social engineering" of which Romesh Thapar had spoken so eloquently needs, however, to be backed by a new type of administrative cadre that is committed and aware of the magnitude of problems facing us. Such cadres cannot be categorised as 'generalists' and 'specialists' about whom much needless controversy has been generated in recent months. Administration has today become multifaceted in which both the expert and the overview man will be needed. It is heartening therefore to note that the Prime Minister has recently cried a halt to the almost farcical demand of all for a parity with IAS. As she rightly said, there are able men in all cadres and the country needs the sincere efforts of all—both the specialist and the generalist. Scientific research will then be geared not as now largely to problems that are of interest to advanced nations but those which have an immediate relevance and urgency. "Our people cannot rise out of mud hovels" says Thapar again "unless we create alternative building materials which possess the qualities of mud, are of greater performance and are cheap and permit the creation of new rural habitation. Tensions in towns cannot be ended unless we solve the problems of mass housing, mass transport and mass consumption on the basis of a new and aesthetic definition of living standards. Environments will be destroyed unless we find interested approaches to the business of living and so it goes on. . . this business of consciously motivating our people to skip the aberrations of affluent anarchy. The task is not easy; it cannot be ordered. It can only be achieved through free choice, through better alternatives properly projected and marketed. We have this yearning . . . and the talent in our developing societies. We must build the dream of the future and motivate our millions in a new design for living and development. Otherwise, we shall only be seeking patterns of growth which have been enthroned in the developed countries and which are being rejected by the enlightened of those countries."

But implementation is more than mere technological research or adaptation; there is the problem of building it into policies and schemes at the field level. This poses problems that require not just specialist knowledge but an overview of the linkages in society, the way humans react to new ideas, new techniques to be adopted for rapid growth and what should be the mix between such techniques and those which are capital intensive in nature? One has to take many factors besides the obvious technological and economic; the social and human factors may well predominate and determine the relative composition



of the mix. This requires intimate familiarity with the problems of the people and the way they live and cannot be thought of merely as solutions on 'PERT' charts.

Other issues need to be resolved in implementation. How far does one use the new media of mass communication at the disposal of modern society? The tremendous appeal of such techniques as Radio, TV and Cinema is too well known to need mention; but the problem of the developing countries is, how does one use them to influence powerfully the thinking of the people? Should they be used deliberately to inculcate new modes of thinking as in the Soviet Union, China and other Communist countries or should they be left for entertainment as in the USA, UK, Japan and other Western countries? If there is to be a mix of education, information and instruction, what should be the order of their priority and relative proportion between them? Similarly, how far should one use the new data processing systems in offices and factories? Can one think of computer-based societies which will leave men free to do more creative tasks or is such an alternative unthinkable at least in the near future for developing countries with their vast numbers of unskilled labour waiting to be employed productively? Administration, in the ultimate analysis, is a matter of compromise between what is desirable and what is feasible. . . and hence is an end product of the efforts of both the 'specialist' and 'generalist'.

Such problems need to be seen in a longer and larger perspective than is often done in this country. If implementation is to match the long-term goals of the nation, there is need for a perspective and a clear vision of the goals themselves. Planning seems to concentrate its energies on short-run goals rather on long-term perspectives. When planning began in 1950, the year 1975 was used as a reference point to which the targets would be pegged. Today, 1975 is just around the corner and there is need for a new reference point so as to give ourselves a new perspective and a new vision. In a few weeks, the Fifth Five Year Plan would begin and one would like to know not merely the immediate targets of the Plan, but what we are aiming at in the next 25 years. Perhaps, the year 2000 AD is a good reference point which is not too far away and marks the beginning of a new millennium.

What India will be like in 2000 AD will depend on us today . . . on what we do now and how we do it . . . on our effort and vision, our wisdom and foresight. The country has travelled much in the last 25 years; these have been years of triumph and disappointment, suffering and achievement. A sound base has been laid for further progress on

many points but much more needs to be done. There is no doubt that the next 25 years will be equally crucial, not only for this country but for all mankind. Man who has just begun a voyage of exploration amongst outer space will have the choice to yoke his newly found knowledge for creative purposes so that all humans can live in peace. Man must learn to match the undoubted triumphs of Science and Technology, with an inner wisdom that enables him to use these powers wisely and effectively. "If man is to survive, if civilisation is to survive and flower in freedom, truth and decency" writes Louis Fischer, "the remainder of the 20th century and what lies beyond, must belong not to Lenin or Trotsky, not to Marx or Mao, or Ho or Che but to Mahatma Gandhi."





## SOME NEGLECTED ASPECTS OF THE FINANCE COMMISSION

G. Thimmaiah

THE Indian Constitution has provided for a Finance Commission under Article 280, to recommend mainly the financial transfers from the Union Government to the States with a view to reducing vertical as well as horizontal federal fiscal imbalances.<sup>1</sup> This constitutional provision requires that the President should appoint the Finance Commission within two years from the commencement of the Constitution and thereafter once in every five years or even earlier, if necessary. Article 280 also specifies broadly the terms of reference of the Finance Commission under clause 3(a) and 3(b), and leaves only the terms of reference under 3(c)<sup>2</sup> to be determined by the President depending upon the need for such reference. Further, Article 280 has fixed the total strength of the Finance Commission by specifying that it should consist of a Chairman and four members other than the Chairman.

However, Article 280 has left to the Parliament the power to prescribe the qualifications of the Chairman and other members of the Finance Commission as also the procedures for their appointment and for the work of the Finance Commission. Accordingly, the Parliament has enacted a legislation, i.e., *The Finance Commission (Miscellaneous Provisions) Act* of 1951. So far six Finance Commissions have been appointed by the President of India within a period of twenty-two years.

An attempt is made in this paper to analyse the terms of reference, personnel and procedures of these six Finance Commissions with a view to assessing their influence on the success or failure of the Finance Commission in this country. A plethora of literature—both analytical and descriptive—exists in India on the Finance Commission. But there has been no attempt to study the terms of reference and personnel of the Finance Commission with a view to examining their bearing on the success or failure of the Finance Commission.

The success or failure of the Finance Commission depends upon a

<sup>1</sup> For further details about these terms, see author's *Studies in Federal Finance*, Bangalore, (1973), Padma Prakashana, Ch. II.

<sup>2</sup> Please see footnote 4.

variety of factors of which I consider the following as significant: (1) rationality of its approach and methodology, (2) consistency of its approach within a fair degree of flexibility, and (3) objectivity of its judgment and recommendations. These significant factors are in turn influenced, to a large extent, by (i) the terms of reference of the Commission, (ii) relevant expertise and experience of the personnel manning the Commission, (iii) the extent of time at the disposal of the Commission as well as the time devoted by its personnel to the Commission's work, (iv) the procedures adopted by the Commission in its work within the constitutional and legal frameworks, (v) the facilities provided to the Commission, particularly the supply of required data and their analysis, and (vi) the cooperation extended to the Commission by the Union and State Governments.

I have examined the consequences of the first set of three significant factors on the work of the Finance Commission elsewhere,<sup>3</sup> and I have come to the conclusion that it is yet to succeed in achieving its intended objectives in the Indian Federation. In this paper, I propose to examine the share, if any, of the second set of six factors with an emphasis on only the first four of these.

#### TERMS OF REFERENCE OF THE FINANCE COMMISSION

The Constitution has laid down the following broad terms of reference, under clause (3) of Article 280, of the Finance Commission:

"It shall be the duty of the Finance Commission to make recommendations to the President, as to:

- (a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be divided between them under this chapter and the allocation between the States of the respective shares of such proceeds;
- (b) the principles which should govern the grants-in-aid of the revenues of the States out of the consolidated Fund of India;
- (c) the continuance or modification of the terms of any agreement entered into by the Government of India with the Government of any State specified in Part 'B' of the First Schedule under clause (i) of Article 278 or under Article 306;<sup>4</sup> and
- (d) any other matter referred to the Commission by the President in the interest of sound finance."

<sup>3</sup> See author's *An Approach to Centre-State Financial Relations in India*, Mysore, Ganga Tharanga Publishers, (1968).

<sup>4</sup> This original clause 3(c) was deleted from Article 280 of the Constitution by the seventh amendment of the Constitution in 1956, and therefore, the original clause 3(d) has become at present clause (c).

Thus, the terms of reference are broadly fixed by the Constitution while at the same time an element of flexibility is built into these terms of reference particularly under 3(d) which is now 3(c). This has prevented any arbitrary determination of the terms of reference of the Finance Commission by a strong Union Government disregarding the financial interests of the States. Even this safeguard and flexibility in regard to the terms of reference has not satisfied some administrators in this country. For instance, Mr. J. Shivakumar has maintained that "the terms of reference (of the Finance Commission) are unilaterally drafted by the Union Finance Ministry and it is common knowledge that there is no institutional arrangement by which the President makes an independent appraisal of the suggested terms of reference. An arrangement by which the States are consulted beforehand would be a step in the right direction but so far this has not been attempted."<sup>5</sup>

It may not be out of context to mention here that the claimant States are not consulted by the Commonwealth Government in Australia for deciding the terms of reference of the Commonwealth Grants Commission, a body which is similar to the Indian Finance Commission in some respects. The terms of reference of the Australian Grants Commission are almost uniform consistently except for the *number* of claimant States whose requests for grants have to be examined each year. Similarly, the terms of reference of the Indian Finance Commission have been enumerated in the Constitution leaving some scope for additional matters to be referred to the successive Finance Commissions, if necessary. The first difficulty in determining the terms of reference of the Finance Commission in consultation with the States is that the number of States is fairly big and this makes the administrative process of ascertaining their views difficult and time-consuming. Secondly, in view of differing priorities which different States may attach to the common federal financial problems, it would be difficult to arrive at a consensus within a reasonable time devoted for completing the process of finalising the terms of reference. Thirdly, if the purpose is only to ascertain the views of the States on the additional terms of reference and not necessarily to refer them to the Finance Commission, then there is no need for performing that ceremony. If on the other hand, the purpose is to include the ascertained views in the terms of reference, it is simply not practicable to arrive always at a consensus and moreover, the Finance Commission will not be able to do justice to too many additional terms of reference within a short period of about one year. Finally, if the Union Government tries to ascertain the views of the States on certain

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<sup>5</sup> "Union-State Financial Relations", *The Indian Journal of Public Administration*, Vol. XVI, No. 2 (April-June) 1970, p. 207. See my comments on this article in the same *Journal* (April-June) 1972.

terms of reference which are relevant from the point of view of sound finance of the country, but which would adversely affect some States, they will be opposed by the States. I may mention here the problem of States' unauthorised overdrafts which was referred to the Fifth Finance Commission. Many States would have opposed its reference had they been consulted.

Thus the terms of reference of the six Finance Commissions have been determined by the Union Government within the framework suggested in the Constitution and according to the sound financial requirements of the country. The first Finance Commission was asked to recommend a share in the income tax, if necessary, a share in the Union excise duties and the principles on the basis of which these shares should be distributed among the States. Secondly, the Commission was asked to suggest any modifications in the revenue gap grants provided to the former part 'B' States, and grants *in lieu* of a share in the yield from export duties to the former jute growing States. And finally, the Commission was asked to recommend grants-in-aid to be paid to the States under Article 275. By the time the second Finance Commission was appointed, some new terms had emerged under clause 3(a) of Article 280. In addition to a share in income tax and Union excise duties, the Second Finance Commission was asked to recommend the principles of distributing the net yield from certain taxes levied under Article 269 such as estate duty, and tax on railway fares, which have to be levied and collected by the Union Government but the proceeds of which should be made over to the States. Besides, the Commission was asked to recommend the basis of distributing the net yield from additional Union excise duties under clause 3(a) of Article 280. The Commission was of course asked to recommend the grants-in-aid under Article 275, under clause 3(b) of Article 280. Finally, under clause 3(c) an additional term of reference was made in regard to the methods of modifying the payment of interest on Union loans to the States and terms of repayment of these loans to the Union Government.

Ever since, all these terms of reference under clauses 3(a) and 3(b) have been made regularly to all the successive Finance Commissions. However, in regard to the additional terms of reference, there has not been any consistency for obvious reasons. The Third Finance Commission was not asked to examine any additional matter. But the Fourth Finance Commission was asked to examine the desirability of using the States' share of estate duty for the repayment of the Union loans by the States, to estimate any additional burden of debt servicing expenditure that would devolve on the States, and also to examine the combined incidence of sales-tax and Union excise duties on production and

consumption. Perhaps, the Fifth Finance Commission had to bear the brunt of the burden of additional terms of reference. It was asked to recommend ways and means of discouraging the States' unauthorised overdrafts, the scope for exploiting revenue sources enumerated under Article 269, and finally, the scope for exploiting the States' sources of revenue by the States. The Sixth Finance Commission was asked to examine the States' debt position *vis-a-vis* their non-plan capital requirements, the method of consolidating the Union loans to the States, and the case for establishing a national relief fund by making both the Union and the States contribute some proportions of their revenues.

The following broad conclusions emerge from the foregoing review of the terms of reference of the six Finance Commissions: (1) the number of regular terms of reference has been increasing steadily, (2) number of additional terms of reference is not only increasing but also becoming a *regular feature*, and (3) of these additional terms of reference, the problem of States' indebtedness to the Union Government is being repeatedly referred to the Finance Commission.

Apart from these broad conclusions, there are certain specific aspects of the terms of reference which need some emphasis here. One such aspect is the controversy in regard to the bifurcation of grants under Article 275 as revenue grants and those under Article 282 as capital grants. In India, grants-in-aid under Article 275 have come to be provided on the recommendations of the Planning Commission. Besides, the grants-in-aid under Article 275 have been confined to revenue budgets of the States only, though these may be provided for both revenue and capital budget requirements of the States under the Constitution. Thus the grants-in-aid under article 275 have been made only for meeting mostly, though not entirely, the non-plan budgetary gaps of the States on their revenue account, whereas grants under Article 282 have been made for plan requirements of the States mostly, though not entirely, for their capital budgetary needs. This procedure has angered the States because, the plan grants have grown both in absolute and relative terms as compared to the non-plan grants in the total financial transfers from the Union Government to the States. Besides, the plan grants have been provided through various cumbersome procedures as compared to the once for all fixation of non-plan revenue grants for five years mainly on the basis of the States' revenue needs.

This bifurcation has displeased the Finance Commissions because they did not like all the capital grants being provided outside their purview as it limited their scope of work and also created the problem of coordinating their assessment of the financial needs of the States and

recommendations with those of the Planning Commission. Besides, they have also objected to this sort of narrowing down of the scope of a body like the Finance Commission which is a statutory body by broadening the scope of the Planning Commission which is not statutory. Perhaps, this opposition to the present bifurcation of grants into non-plan revenue grants and capital plan grants through the terms of reference of the Finance Commission would not have emerged, had it been done right from the beginning. Unfortunately, this was not done. For instance, the First and Second Finance Commissions included plan requirements of the States while recommending grants under Article 275. In fact, the Second Finance Commission was specifically asked through its terms of reference to take into account the financial requirements of the States for the Second Five Year Plan. Further, the First Finance Commission recommended special grants (essentially in the nature of plan grants) for the development of primary education which was accepted and implemented without any kind of fuss. But the Union Government rushed to a clearcut thinking on the needed bifurcation only when the Third Finance Commission recommended not only special grants for the development of roads in some poorer States but also grants for meeting 75 per cent of the plan component on the revenue budgets of the States. Here again, the mistake was with the Union Government which asked the Third Finance Commission through its terms of reference to take into account the financial requirements of the States for the Third Five Year Plan while recommending grants-in-aid. But when the Commission used this term of reference to widen the scope of its recommendations in regard to grants-in-aid under Article 275, it was resented by the Union Government on the ground that it was outside the purview of the Finance Commission. Accordingly, these recommendations were not accepted though in effect they were implemented in a modified way. Fearing such rejection, the Fourth and the Fifth Finance Commissions did not venture to go beyond their terms of reference in regard to grants-in-aid which was confined to revenue grants under Article 275 excluding the requirements for Five Year Plans of the States. But even this bifurcation seems to have lost its importance in the terms of reference to the Sixth Finance Commission which was asked to estimate the non-plan capital requirements of the States as also to take into account, while determining the grants-in-aid under Article 275, the scheme and extent of plan assistance provided to the States on the recommendations of the Planning Commission. This is sufficient evidence to prove the inconsistency of the policy of the Union Government in regard to the demarcation of the functions of the Finance Commission and the Planning Commission in the field of Union grants to the States. Thus, the Government of India has not been having any clearcut idea about the relative roles of the Finance



Commission and the Planning Commission as also about the grants under Article 275 and other grants under Article 282.

Yet another aspect of the terms of reference of the Finance Commission which goes to prove the foregoing conclusions has been the imprecise, loose and ambiguous wording of the terms of reference. This was so in the case of a term of reference to the Fourth Finance Commission relating to the assessment of tax efforts made by the States. Again in the case of the Sixth Finance Commission, the wording of the terms of reference in regard to grants-in-aid and the additional references is ambiguous and imprecise. This invariably creates confusion and leads to the Commission paying inadequate attention to certain matters of national importance which are important from the point of view of sound finance of the States.

Thus, the increasing number of terms of reference, failure to make a rational and consistent demarcation of the domain of the Finance Commission in the field of grants and the ambiguity in the wording of the terms of reference had all their adverse impact on the working of the Finance Commission.

#### PERSONNEL OF THE FINANCE COMMISSION

The Finance Commission Act of 1951 specifies the qualifications for the Chairman and the Members under section (3) in the following way:

“The Chairman of the Commission shall be selected from among the persons who have had experience in public affairs, and the four other members shall be selected from among persons who:

- (1) are, or have been, or are qualified to be appointed as Judges of a High Court; or
- (2) have special knowledge of the Finance and accounts of the Government; or
- (3) have had wide experience in financial matters and in administration; or
- (4) have special knowledge of economics.”

The qualifications prescribed for the members seem to be ideal for the purpose of the work of the Finance Commission. But the same cannot be said in regard to the Chairman who should possess a wide

experience in more than one field prescribed for the member. Instead, 'experience in public affairs' will only enable the Union Government to make political appointments disregarding the specialised expertise and experience required for the task. Further, even in regard to the wording of the qualifications for the members, the use of the word 'or' in between all the four prescribed qualifications implies that all the four members may be appointed from the same field of expertise and/or experience which was not the intention of the Constitution makers. Though this extreme step has not been followed so far, it enables a recalcitrant Government at the Centre to do it. Therefore, it is better to replace the word 'or' by 'and' which makes the intention precise and prevents abuse of legal provisions by the Union Government.

The implications of the foregoing observations may be very well brought out by examining the qualifications/experiences of the Chairman and members of the six Finance Commissions. The following table summarises qualifications/experiences of the personnel of the six Finance Commissions in chronological order:

TABLE 1

QUALIFICATIONS AND EXPERIENCE OF THE CHAIRMAN AND MEMBERS  
OF THE SIX FINANCE COMMISSIONS

<i>Finance Commission</i>	<i>Chairman Name Experience</i>	<i>Members Name Experience</i>
First	K. C. Neogy/ ex Member of the Union Cabinet	1. V. P. Menon/Professional Administrator; (V. L. Mehta/ Gandhian Leader) 2. R. Kausalandra Rao/High Court Judge; 3. B.K. Madan/Economist 4. M. V. Rangachari/Professional Administrator;
Second	K. Santhanam/ Minister of State at the Union and ex Lt. Governor	1. Ujjal Singh ex Finance Minister of Punjab 2. L. S. Misra/ex Chief Justice of High Court 3. M. V. Rangachari/Professional Administrator 4. B. N. Ganguly/Economist

( Continued )



(Contd.)

<i>Finance Commission</i>	<i>Chairman Name/Experience</i>	<i>Members Name/Experience</i>
Third	A. K. Chanda/ <i>ex</i> Comptroller and Auditor-General	1. Govinda Menon <i>ex</i> Chief Minister of Kerala 2. Dwijendranath Roy/ <i>ex</i> High Court Judge; 3. M. V. Mathur/Economist; 4. G. R. Kamat/Professional Administrator
Fourth	P. V. Rajamannar/ <i>ex</i> Chief Justice of High Court.	1. Mohanlal Gautam/ <i>ex</i> Minister of U.P. 2. D.G. Karve/ <i>ex</i> Deputy Governor of Reserve Bank of India; 3. Bhabatosh Datta/Economist and Educationist; 4. P. C. Mathews/Professional Administrator
Fifth	Mahavir Tyagi/ <i>ex</i> Union Minister	1. P. C. Bhattacharyya/ <i>ex</i> Governor of Reserve Bank of India (G. Swaminathan/Professional Administrator) 2. M. Seshachalapathy/ <i>ex</i> High Court Judge; 3. D. T. Lakdawala/Economist; 4. V. L. Gidwani/Professional Administrator
Sixth	K. Brahmananda Reddy <i>ex</i> Chief Minister of Andhra Pradesh	1. Syed Sadat Abdul Masud/ <i>ex</i> High Court Judge; 2. B. S. Minhas/Economist; 3. I. S. Gulati/Economist; 4. G. Ramachandran/Professional Administrator

SOURCE : Compiled from the Reports of the past Finance Commissions.

Some broad conclusions emerge from this table. They are: (1) by and large distinguished persons served on the six Finance Commissions. (2) But there has been an overdose of administrators. For instance, though all the member-secretaries were professional administrators, some persons with only political-cum-administrative experience were also appointed to the Commissions. (3) The qualifications prescribed for the Chairman have been used to bring in political leaders for an expert Commission like the Finance Commission. (4) There has been an overdose of political leadership to the Finance Commission in the name of experience of States' finances and/or political administration. Here, the letter of law has been followed relegating the spirit of law to the background. (5) Majority of the personnel belonged to the aged group to justify the experience and, in fact, one member died of old age while serving on the Commission. However, this trend seems to be slightly changing with the personnel of the Sixth Finance Commission. (6) Except in the case of the same person being appointed as the member-secretary to the First Finance Commission and member to the Second Finance Commission, the same person has never been appointed more than once either as Chairman or as member for the successive Commissions. (7) There has been a total exclusion of women from the Finance Commission which cannot be justified. As a consequence of all these lapses, the Finance Commission could not have the benefit of young, dynamic and able experts on the Commission. Only part of the Commission constituted the right experts, the rest being generalists and political leaders. These conclusions will be further reinforced by the analysis of the time devoted by the Finance Commissions for their work and also the time-nature of the personnel.

#### DURATION OF THE FINANCE COMMISSION AND ITS PERSONNEL

The appointment of the Finance Commission is made by an announcement of the order of the President by the Union Ministry of Finance normally (though not always) after the Union Budget is presented to the Parliament. The Finance Commission comes into existence from the date of assuming charge of the Chairman and members specified in the President's Order. The duration of the Finance Commission is also specified in the President's Order. The Commission ceases to exist as soon as it submits its report. The average duration of the Finance Commission has been about fourteen months though it varied from a minimum duration of 12 months in the case of the Third Finance Commission to a maximum duration of 16½ months in the case of the Fifth Finance Commission. Table 2 shows the details in

regard to duration of each of the past six Finance Commissions.

TABLE 2

## DURATION OF THE FINANCE COMMISSIONS

<i>Finance Commission</i>	Initial period of appointment		Extension of the initial period—upto	Total Duration
	From	To		
First	30 Nov. 1951	30 Nov. 1952	30 Dec. 1952	13 months
Second	1 June 1956	30 Aug. 1957	30 Sept. 1957	16 months
Third	15 Dec. 1960	14 Dec. 1961	Nil	12 months
Fourth	18 May 1964	12 Aug. 1965	Nil	15 months
Fifth	15 Mar. 1968	31 June 1969	Nil	16½ months
Sixth	28 July 1972	31 Oct. 1973	Nil	14 months

SOURCE: Compiled from the Reports of the past Finance Commissions.

The table reveals certain interesting conclusions. They are: (1) the appointment of the Finance Commission was not coordinated with the presentation of the Union Budget till the time of the Fourth Finance Commission; (2) there was no coordination between the period of implementation of the recommendations of the Finance Commission and the period of the Five Year Plan till the time of the Third Finance Commission. However, such coordinations have been established since then and it seems to have become a convention; (3) the interval between two Finance Commissions has been less than five years. In other words, whereas the Constitution stipulates that the Finance Commission must be appointed at least once in every five years, in actual practice, it has been appointed once in every four years or so; (4) the duration of the Finance Commission has been almost stabilised; and (5) the foregoing conclusions suggest that this period of 14 months is just adequate for the work of the Finance Commission.

However, the adequacy of this time for the work of the Finance Commission depends to a large extent on the time-nature of the personnel of the Commission. In other words, the adequacy of the present duration of the Finance Commission depends on whether the Chairman and members are full-time or part-time personnel. This is presented in Table 3.

TABLE 3

## TIME-NATURE OF THE PERSONNEL OF THE FINANCE COMMISSIONS

<i>Finance Commis- sion</i>	<i>Chairman</i>		<i>Members</i>	
	<i>Full Time</i>	<i>Part Time</i>	<i>Full time</i>	<i>Part time</i>
First	Full time	—	Three only	One (V.P. Menon) (V. L. Mehta)
Second	Full time	—	Three only	One (B. N. Ganguly)
Third	—	Part time (A.K. Chanda)	Four only	—
Fourth	—	Part time (P.V. Rajamannar.)	Three only	One (D. G. Karve)
Fifth	—	Part time (Mahavir Tyagi)	Three only	One (P.C. Bhatta- Charya) (G. Swaminathan.)
Sixth	Full time	—	Two only	Two (B.S. Minhas) (I.S. Gulati)

SOURCE : Compiled from the Reports of past Finance Commissions.

It is clear from Table 3 that all the six Finance Commissions did not have the benefit of whole-time personnel. This is in addition to the time allowed for the Commission to do its work which has been slightly more than one year. Over and above this, the Commission is regularly *ad hoc* in the sense that as soon as it submits its report it ceases to exist till the next Commission is appointed. This means the Commission will not get the benefit of continuous service of the expert members.<sup>6</sup> One may defend this on the ground that new personnel will bring new expertise and experience to the Commission to meet the new challenges thrown up by the constantly changing financial as well as political relations between the Union and the States. This is really necessary and hence the present practice is desirable, if not ideal. But on no account can we afford to have part-time Chairmen and Members. No wonder then, the Finance Commissions have failed to do justice to their assigned tasks in India. They could not do better than copy the approach and methodology used by Otto Niemeyer for a colonial economy and fit the recent relevant budgetary data into it to produce a report.

This failure would suggest that there should be a permanent Finance Commission. Such a suggestion has been advanced by Professors R. N. Bhargava, D. T. Lakdawala, K. V. S. Sastry and Dr. V. V. Bhat.<sup>7</sup> However, in the context of a permanent Planning Commission, a permanent Finance Commission becomes unnecessary if its personnel is made wholetime. Otherwise, in the context of the increasing number of States, part-time personnel cannot do justice to the task assigned to the Finance Commission in India.

#### PROCEDURES OF THE FINANCE COMMISSION

Soon after the announcement of the constitution of the Finance Commission by the Government of India, the personnel assumes charge and decides the phasing of the work of the Commission. First, the Finance Commission addresses letters to the State Government asking them to submit estimates of their normal revenue expenditures and amounts of revenue over the next five years. After receiving such

<sup>6</sup> Dr. P. D. Ojha has maintained that "Although it has been provided that the members can be reappointed by the President, except in one solitary instance already mentioned, there has been no reappointment of Commissioners. Hence the continuity and benefit of the experience of Commissioners has been lost; the Commissioners in the light of their own norm and judgment have been denied the opportunity in successive Commissions to assess the efficacy of their recommendations. The result has been an *ad hoc* approach to such an important problem of Centre-State financial relations. "Centre-State Finance Relations in India", in *Economic and Social Development: Essays in honour of Dr. C. D. Deshmukh*, (Ed.) S. L. N. Simha, Vora & Co., Ltd., (Bombay: 1972), p. 162.

<sup>7</sup> I have examined their suggestion in detail elsewhere, See *Studies in Federal Finance*, Bangalore 1973, Padma Prakashan, Chs. I and IV.

estimates, the Commission scrutinises the reliability of these estimates and summons the concerned officers from the States to Delhi for seeking clarifications. After such clarifications, the Commission makes these estimates comparable among the States by eliminating abnormal and unusual items. This is the first stage of the Commission's work.

Next, the Commission tours all the States visiting mostly the capitals of the States. These visits are intended to hear the case of each State for financial assistance. Normally, the Commission hears the Chief Minister and the Finance Minister of each State along with their aides. Each State submits a memorandum making out its case invariably for more financial assistance. Normally, these hearings are held *in camera* though they receive press publicity through press releases. Besides these, the Commission can and usually does receive memoranda from individuals and Associations and also hears them. The Commission enjoys the position of a Civil Court under the Finance Commission Act of 1951 to summon witnesses, records and information for its work. But so far, it has not used these powers to summon private individuals and associations. There has been a spontaneous response to the press release of the Commission about meeting the interested persons and receiving memoranda.

After completing the second stage of its work which is time-consuming and arduous in a country of twenty-one States and millions of experts, the Commission meets in Delhi to prepare and finalise its report. It is very difficult to know from the reports of the Commission whether the Commission decides its approach and methodology before or after meeting the States' representatives. The past work of the six Finance Commissions suggests that these are mostly decided before and the final structure is evolved after hearing the States' representatives, individuals and Associations.

After these procedures, the Commission submits its report to the President, normally (at least in the recent past), some months earlier than the month in which the Union Budget is presented to the Parliament. The President recommends its consideration for implementation by the Union Cabinet. The Cabinet, on the advice of the Union Ministry of Finance, decides the acceptance or otherwise of the Commission's recommendations. Once they are accepted, they will be incorporated into the Union Budget for implementation after placing the report before the Parliament.

Certain anomalies may be noticed in the procedure of the Finance Commission's work. First, the Finance Commission depends upon the

data and information on the financial needs of the States supplied by them. These data may not be free from hidden unrealities and an attempt to secure more financial assistance, and window dressing of the financial positions of the States may not be ruled out. In spite of the repeated recommendations of the Finance Commissions to create a cell of experts to collect relevant data, analyse them in the required form and supply them to the Commissions to enable them to make an independent assessment of the financial needs of the States, it appears that desired progress has not been made in that direction. The cell was no doubt created on the recommendations of the First Finance Commission and attached to the President's Secretariat. But, later, it was found that it did not do the expected job. Then the Second Finance Commission thought that cell will function better, if it was attached to the Union Finance Ministry. Even then the Third and Fourth Finance Commissions were disappointed to know that the cell consisted of only clerks and data provided by it were only those found in the State Budgets. I have suggested elsewhere<sup>8</sup> that it should be reorganised with experts in economics, public finance, accountancy, law and statistics and be attached to the Planning Commission where research is a necessary requisite for policy formulation. This will also enable the Planning Commission to supervise the work of the cell in the right direction as hereafter one of the members of the Planning Commission will serve on the Finance Commission.

Secondly, though all the Commissions toured most of the States visiting their capitals, they have never tried to make an on-the-spot study of the progress of the expenditure programmes financed by the Commission's recommendations. This is an important feature of the Commonwealth Grants Commission in Australia. In fact, the Commission was generous enough to permit me to accompany it in its inspection of State projects in South Australia. However, in India, such inspections are rare and they are partly discouraged by the fact that the Finance Commission is not allowed to recommend plan grants for projects and partly by their limited time to cover the increasing number of States by their formal visits. But a more important reason for not following such a procedure has been that the Finance Commissions have never tried to equalise the essential government and social services among the States as also to award penalty for wastage of expenditure by the States. As the Finance Commissions have been concerned with filling up estimated revenue gaps of the States' revenue budgets without going into the fiscal needs of the States, they have not found such an on-the-spot study rewarding. The Third Finance Commission no doubt undertook

<sup>8</sup> See author's *Studies in Federal Finance*, Bangalore, 1973, Padma Prakashana, Ch. I.



such a tour of some backward States to know first-hand the adequacy of road communications and recommended special grants for some such States for the improvement of road communications. Other than this, there was no instance of the Finance Commission visiting revenue expenditure projects for making an on-the-spot study of adequacy of any service or the mode of using the grant money. Perhaps such tours may not be necessary, if the future Commissions also follow the same outmoded methodology.

Another procedural anomaly of the Finance Commission's work has been that whenever the Commission visits the States for hearing the State Governments' cases, very often all the members will not be present in the meeting. In the case of hearing individuals and associations, it becomes the onus of the Chairman and the Member-Secretary. Other members though visiting the State at the cost of the tax-payer's money, will be busy with personal visits and other work in the State capitals. This is not only unfair but becomes all the more serious in the context of the limited time at the disposal of the Finance Commission and also in the context of part-time personnel persisting on the Finance Commission.

Finally, the Finance Commissions in India have not been publishing (either in their Reports or elsewhere), details regarding their estimation of 'revenue gap' and 'financial (or fiscal) need' of each State. Nor have they precisely stated the indices of 'backwardness' they have used, and weights given to different factors in these indices. In this connection, Dr. P. D. Ojha has observed that the measurement of 'need' for the purpose of grants-in-aid did not remain uniform with the various Finance Commissions. Each Commission in its own way tried to define 'need'. None of the Commissions, however, published the details.<sup>9</sup> In other words, the Finance Commissions in India have not been placing all the relevant details regarding their calculations before the public. Even the most important principles they have used to distribute financial transfers from the Union to the States have not been precisely defined. This is in contrast to the practice of the Australian Commonwealth Grants Commission which publishes all relevant details regarding its calculations. And the concept of 'fiscal need' was precisely defined in the Third Report of the Commonwealth Grants Commission in 1936 and has since been followed with suitable modifications. In fact, the Australian Commonwealth Grants Commission has been held in high esteem, partly because of this procedure of placing all its methods, estimation, assumptions and calculations before the public.

<sup>9</sup> See author's *Studies in Federal Finance*, Bangalore, 1973, Padma Prakashan, p. 148.



The failure of the Finance Commissions in India to publish such details in their Reports has led researchers to suspect that they have been trying to avoid criticism of their arbitrary assumptions, estimations, methods and calculations by hiding them from the public. Anyway, this secrecy has prevented researchers from examining the rationality, relevance and reliability of their estimations and impartiality of their recommendations.

This analysis of the personnel and procedure of the Commission suggests that these lapses have contributed to some extent to the failure of the Finance Commission in this country. This is in spite of the welcome cooperation extended to them by the Union and the State Governments in India. Therefore, it is time to acknowledge these defects, though they look trivial, and set them right preferably by incorporating necessary legal provisions in the Finance Commission's Act of 1951.

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## THE ROLE OF AN INVESTMENT CORPORATION IN INDUSTRIAL DEVELOPMENT—A CASE STUDY

*Miss M. S. Ramesh*

A UNIQUE feature which distinguishes the Tamil Nadu Industrial Investment Corporation from other State Finance Corporations is its ability to underwrite shares as also directly subscribe to the shares of any industrial unit. The Memorandum and Articles of Association clearly spell out this dual role by which the Corporation is not only permitted to underwrite but also directly subscribe to the issue of stocks, shares and debentures of industrial concerns, provided the registered office of the company proposed to be helped by it is situated in Tamil Nadu or the proprietors and partners of the said company in which the Corporation is to invest create assets within the State of Tamil Nadu. Initially, there were no monetary constraints in the form of financial limits upto which the Corporation could take shares in each concern. But, as on date, the Tamil Nadu Industrial Investment Corporation can underwrite or subscribe to shares only upto Rs. 25 lakhs in each case or to a sum not exceeding twice the paid-up capital of the said concern. In the case of underwritings, the financial limits are further restrained by a clause saying that at no time can the Corporation underwrite more than 25 per cent of each capital issue of the said company or to the extent beyond the promoters' contribution, whichever is less.

These powers of the Tamil Nadu Industrial Investment Corporation are in sharp contrast to the powers of other State Finance Corporations as spelt out in the State Finance Corporations' Act, 1951. That Act specifically prohibits the State Finance Corporations from directly subscribing to the shares of companies. It only permits underwriting of shares and holding of such shares as devolve on the State Finance Corporation in fulfilment of its underwriting liability. In the case of the Tamil Nadu Industrial Investment Corporation, there is no time limit upto which the shares can be held by the Corporation. But, under the State Finance Corporations' Act, the other State Finance Corporations cannot hold the shares for periods beyond seven years without the Reserve Bank of India's permission. In addition, the State Finance Corporations' Act lays down that no State Finance Corporation can give assistance either in the form of loan or guarantee or underwriting for a sum exceeding Rs. 20 lakhs in all, in the case of public

limited companies and firms.

These statutory restrictions have made it difficult for the State Finance Corporations to play as prominent a role as an industrial promoter, as the Tamil Nadu Industrial Investment Corporation was able to do. Free from such statutory curbs, the Tamil Nadu Industrial Investment Corporation was able to develop into a premier industrial promoter. As on 1970, while all the State Finance Corporations including the Tamil Nadu Industrial Investment Corporation were able to invest to the tune of Rs. 10.07 crores in shares and debentures, the shares of this Corporation alone were Rs. 7.80 crores, *i.e.*, nearly 77.4 per cent. The nearest competitor to the Tamil Nadu Industrial Investment Corporation is West Bengal with a share investment of Rs. 50 lakhs and Andhra Pradesh with Rs. 46 lakhs of investment portfolio.

To turn to the genesis of the role of the Tamil Nadu Industrial Investment Corporation as an underwriter, we have to go to 1959. In July 1959, a paper manufacturing unit approached the State Government for financial participation of a crore of rupees in its share capital. Government felt that in order to avoid criticism of a Government industrial investment policy being influenced by political pressures, it would be wise to delegate investment decisions to a body of industrialists, independent of the Government and having the necessary industrial knowledge and financial expertise. Government wanted the viability of the project to be judged, independent of any political colourings. Government, therefore, naturally turned to the Tamil Nadu Industrial Investment Corporation. Government laid down one restraining clause, that the Tamil Nadu Industrial Investment Corporation should consider only such applications for share participation as were referred to it for consideration, by Government.

In the beginning, the Tamil Nadu Industrial Investment Corporation observed no monetary limits regarding the quantum of investment in the shares of a company. This was partly the result of a historical accident. The Tamil Nadu Industrial Investment Corporation is a Company registered under the Companies' Act, 1956. Section 372 of the Companies' Act, 1956 permits investment by a company in the share of another body corporate, only upto 10 per cent of the subscribed capital of such other body corporate, subject to the provision that the aggregate of the investment so made in all other bodies corporate, shall not exceed 30 per cent of the subscribed capital of the investing company. Investments in excess of these percentages are to be sanctioned by the resolution of the investing company, at its general body meeting and is

subject to approval by Central Government. Normally, the Tamil Nadu Industrial Investment Corporation's policy to invest in shares would have been constrained by this provision. This restraining provision of the Companies' Act does not apply to banking companies. (The Tamil Nadu Industrial Investment Corporation is a banking company inasmuch as it was receiving fixed deposits from the public and giving loans and advances to industrial companies). May be Section 372 of the Companies' Act did not apply to the banking companies as Section 19(2) of the Banking Companies' Act itself prescribes a ceiling for share investments in individual cases by any banking company. The Section lays down that no banking company can invest in individual cases beyond 30 per cent of the paid-up share capital of the companies whose shares are to be taken up or beyond 30 per cent of the paid-up capital and reserves of the investing banking company, whichever is less. The Tamil Nadu Industrial Investment Corporation, though a Banking Company, was declared by Government of India, to be exempt from the provisions of the Banking Companies' Act. The management of the Corporation, therefore, argued that Section 19(2) of the Companies' Act would not apply to it by virtue of the exemption given by Government of India. At the same time, it said that the provisions of the Companies' Act would not apply to it inasmuch as it was a banking company. Thus, it placed itself beyond both these Acts, with reference to the Inter-Company Investment Provisions. This logic enabled it to invest in companies huge sums upto even 100 to 150 lakhs in each case. The only restraint was the viability of the project and the ability of the Tamil Nadu Industrial Investment Corporation to raise the money and not any other constraints.

This liberal interpretation of the role of the Tamil Nadu Industrial Investment Corporation was to a great extent responsible in bringing to fruition a number of industrial projects. In the early days, the Corporation used to match contributions raised by the private industrialists. In 1960, there was a proposal to set up a paper company to manufacture 20,000 tonnes of paper per year, with an authorised capital of Rs. 7 crores as equity and Rs. 3 crores as preference shares. Its promoters, directors and foreign collaborators had programmed to raise Rs. 105 lakhs between themselves and requested the Tamil Nadu Industrial Investment Corporation to match with an equal share contribution. After analysing the financial viability of the project, the Tamil Nadu Industrial Investment Corporation agreed to directly subscribe Rs. 100 lakhs out of an issued capital of Rs. 350 lakhs. The whole amount was taken as equity capital. Thus, the Tamil Nadu Industrial Investment Corporation contributed 29 per cent of the issued capital. In the very same year, an aluminium company was incorporated

with the objective of manufacturing aluminium ingots and alloys using bauxite from the reserves of Shevroy hills in Salem. This project was under discussion for nearly a decade with the experts from the Government of India; but had never been taken up seriously. In 1960, a set of promoters came up with a proposal to the Tamil Nadu Industrial Investment Corporation to set up this industrial unit with an authorised capital of Rs. 10 crores, consisting of Rs. 2.5 crores of cumulative preference shares and Rs. 7.5 crores of equity shares. At the time of commencement of business, they proposed to issue capital of Rs. 1.5 crores of preference and Rs. 4.5 crores of equity shares. Out of this, the promoters and the Directors took up Rs. 50 lakhs equity and the foreign collaborators agreed to take up Rs. 120 lakhs of equity. The Tamil Nadu Industrial Investment Corporation was requested to match this contribution and after analysing the viability of the project, the Corporation agreed to contribute Rs. 70 lakhs of preference shares and Rs. 80 lakhs of equity shares, thus taking up 25 per cent of the issued capital. Yet another example is the case of a cement manufacturing unit costing Rs. 6 crores. In this case, the promoters and their friends had raised between themselves Rs. 85 lakhs of equity and the Tamil Nadu Industrial Investment Corporation took up Rs. 60 lakhs (Rs. 35 lakhs as equity and Rs. 25 lakhs as preference), thus subscribing nearly 20 per cent of the issued capital, at the time of commencement of the business, making it possible for the promoters to tie up the financing of the project. Another notable example where an industrial unit materialised mainly because of the liberal promotional capital contributed by the Tamil Nadu Industrial Investment Corporation is the case of a shipping corporation. This corporation was set up in 1964 to engage in world wide tramp and coastal trade movement of cargo by bulk carriers. It had an authorised capital of Rs. 5 crores as equity and an issued capital of Rs. 2 crores. Of this issued capital, the promoters and their friends brought in Rs. 50 lakhs and the Tamil Nadu Industrial Investment Corporation matched it with its contribution of Rs. 50 lakhs as equity. Thus, the Tamil Nadu Industrial Investment Corporation contributed 25 per cent of the issued capital and became responsible for promoting a Rs. 17 crores project. In these four cases, the Tamil Nadu Industrial Investment Corporation with its contribution of Rs. 360 lakhs was able to ensure that projects with an outlay of Rs. 43 crores were set up in the State. However, after 1965, the Reserve Bank of India laid down restrictions on the quantum of contribution that could be made by the Corporation in each individual case and thus controlled the role of the Tamil Nadu Industrial Investment Corporation. The effect of this directive of the Reserve Bank of India will become clearer later on in this article when a more detailed analysis is taken up.

# INVESTMENT PORTFOLIOS HELD BY THE TAMIL NADU INDUSTRIAL INVESTMENT CORPORATION

We now turn to an analysis of the Tamil Nadu Industrial Investment Corporation's share investment activities. These investments can appropriately be classified into the various marketable scrips such as State Government securities, Government of India securities, Electricity Board Bonds and shares of companies. No doubt, the role of a development bank is not to be judged with reference to its investment in gilt-edged securities such as the State Government and Central Government securities, because investment in these gilt-edged securities represents more an act of cash management on the part of the corporation and cannot be looked on as representing any risk-capital investment. This role of a development bank is to be studied with reference to its investment in other marketable scrips like the shares of industrial concerns. It is only those investment activities which will serve as an indicator and a pointer that the finance corporation is sensitive to the needs of development financing and not merely following the beaten track of traditional security-oriented banking. The following table indicates the investment made by the Tamil Nadu Industrial Investment Corporation in various marketable scrips.

TABLE 1

## INVESTMENTS IN MARKETABLE SCRIPS

(Figures in lakhs of rupees)

Year	Govt. of India Securities	State Govt. Securities	Other Securities like T.N.E.B.'s Bonds	Investments in shares and debentures	Proportion of column 5 to total investment
1	2	3	4	5	6
1961	27.00	137.00	51.00	151.30	41.3%
1965	12.00	137.00	106.00	551.63	68.3%
1970	12.00	37.00	106.00	754.98	82.9%
1971	—	37.00	106.00	744.19	83.8%
1972	—	25.00	55.00	776.64	90.6%
1973	—	25.00	—	781.75	96.9%

SOURCE : Annual Reports.

(Figures represent position as on 30/6 each year—only for 1973, it represents position as on 31-3-'73)

It is clear that since 1961 when the Tamil Nadu Industrial Investment Corporation started investing in the equity capital of the companies, the proportion of its investable fund going into risk-bearing marketable scrips has been steadily going up from 41.3 per cent to 96.9 per cent. The investment in the shares and debentures of industrial concerns has gone up from Rs. 151 lakhs to nearly Rs. 782 lakhs whereas the investment in the Government and other gilt-edged securities has gone down from Rs. 215 lakhs in 1961 to only Rs. 25 lakhs in 1973. This tendency towards greater investment in risk-bearing scrips is a welcome feature of the activities of this development bank.

#### PROPORTION OF SHARE ASSISTANCE VIS-A-VIS THE DIFFERENT TYPES OF ASSISTANCE

Let us now compare the investment in shares made by the Tamil Nadu Industrial Investment Corporation with the other types of assistance extended by it, like granting of loans and advances, guaranteeing loans, and giving deferred payment guarantees for purchase of machinery. Table 2 indicates the position in this regard.

Table 2 shows that the proportion of loans and advances to total assistance, given by the Corporation registered a sharp fall from 68.7 per cent to 40.2 per cent between 1961 and 1965. Since 1965, it has been increasing and has reached 62.4 per cent in 1973. This is in sharp contrast to the position with reference to the proportion of underwritings to total assistance extended by the Corporation which has been steady at 26 to 27 per cent. Thus, the Corporation has been maintaining its investment in shares of companies at a fairly steady tempo.

#### INVESTMENT IN SHARES AS A PROPORTION OF INVESTMENT IN LOANS AND ADVANCES

The Reserve Bank of India has always been suggesting that the share holdings of any State Finance Corporation should be 25 per cent of the total quantum extended by it as loans and advances. The Reserve Bank feels that it is only when such a proportion of 1:4 is maintained, that the interest income earned on loans and advances will be sufficient to cover not only the cost of money advanced as loans but also the cost of money invested in shares. Normally, the money invested in shares has a long gestation period before recording a return, whereas the money, advanced as loan, earns a steady return of interest, unless the company to which the advance is given defaults.



TABLE 2

(Figures in lakhs of rupees)

Types of Assistance	Years					
	1961	1965	1970	1971	1972	1973 <sup>4</sup>
(a) Loans and Advances <sup>1</sup>	378	819	1597	1770	1902	1797
(b) Underwritings and direct subscriptions <sup>2</sup>	151	552	755	745	777	782
(c) Guarantees <sup>3</sup>	24	663	410	288	302	298
(d) Total assistance given	553	2034	2762	2803	2981	2877
(e) Proportion of "b" above to "d" (percentage)	27.3	27.1	27.3	26.5	26.0	27.2
(f) Proportion of "a" above to "d" above (percentage)	68.7	40.2	57.8	63.1	63.8	62.4

<sup>1</sup> As on 30/6 of each year.<sup>2</sup> Paid up value of shares and debentures picked up by the Corporation as on 30/6 of each year.<sup>3</sup> Deferred payment guarantee loans and guarantee loans.<sup>4</sup> Figures for 1973 represent figures upto 31-3-'73 only.

SOURCE: Annual Reports

However, it is seen that in the case of the Tamil Nadu Industrial Investment Corporation this proportion of 1:4 recommended by Reserve Bank of India has not been followed. The proportion that investment in shares bears to total loans advanced by the Corporation over the past decade, has been given in Table 3.

It is evident that the share investment as a proportion to amount extended as loans and advances has been varying from 40 per cent to 67.4 per cent.



TABLE 3

*(in lakhs of Rupees)*

<i>Year</i>	<i>Amount invested in shares and debentures</i>	<i>Amount extend- ed as loans and advances</i>	<i>Proportion of Col. 2 to Col. 3 (percentage)</i>
1960-61	151	378	40.2
1961-62	216	481	44.9
1962-63	321	694	46.2
1963-64	466	737	63.2
1964-65	552	819	67.4
1965-66	673	1061	63.4
1966-67	727	1215	59.8
1967-68	752	1268	59.2
1968-69	763	1410	54.1
1969-70	755	1597	47.2
1970-71	745	1770	42.0
1971-72	777	1902	41.0
1972-73	782	1797	43.5

(i) Figures in lakhs of rupees.

(ii) Figures represent position upto 30/6 of each year.

(iii) Figures for 1972-73 refer only upto 31-3-1973.

SOURCE: Annual Reports

In this context, it will be of interest to note that in the case of Industrial Credit and Investment Corporation of India the percentage of investment of shares to outstanding loans which was 45 per cent in 1961 came down to 20 per cent from 1963 to 1965 and further down to 14/15 per cent since then.

Table 3 also shows that though by itself the loans and advances portfolio has recorded a growth, the growth is not commensurate with the growth in share holdings in investment account of the Corporation. As a result, the investment portfolio has had a rather lopsided development and there has not been sufficient built-in cushion in the form of steady interest-earning loans and advances, for absorbing the variables and low yield which results from investment in shares. However, the Corporation has not chosen to bring down the investment mix to the desired safe levels indicated by the Reserve Bank. This only indicates the preponderant risk-bearing emphasis laid by this Corporation on its role as a development bank.

#### SHARES INVESTMENTS IN RELATION TO OWNED FUNDS OF THE CORPORATION

The Reserve Bank has been suggesting that it is desirable to fix a ceiling for the Corporation's total investment in shares of industrial concerns in relation to its own funds. The State Finance Corporations' Act lays down that at no time should the corporation's contingent liabilities through guarantees and underwritings exceed twice the paid-up share capital and reserve fund of the corporation. This is to ensure that the State Finance Corporations do not put all their eggs in one basket but invest in risk-bearing shares only to the extent of their owned funds, which is capital got at zero cost, in a sense. Here again, it will be evident from Table 4 that the Tamil Nadu Industrial Investment Corporation has always been investing in shares, sums very much beyond the total of its paid-up capital and reserves.

It is evident that in many years, the share investments portfolio of the Corporation has far exceeded twice its paid-up capital. It is noted that on an average the Corporation has been borrowing capital at rates ranging between 4 to 5 per cent in 1961-65, and 5.2 to 6.1 per cent in 1965-68 and at 6.3 per cent and above since 1969.

It is also seen that the average outstanding investment of the Corporation in shares over the ten years ending 1970 was Rs. 569 lakhs per year in shares and on these investments it received a total yield of 150 lakhs of rupees through the dividend income. This works out to an average return of 2.6 per cent per year. Straightaway, it will be seen that the Corporation has been borrowing money at rates ranging between 4 to 7 per cent and investing in lines which yielded barely 2½ per cent return. It is, however, necessary to reiterate that development banking need not strictly conform to a narrow commercial banking principle. While no doubt cost of money is one of the

TABLE 4

*(Figures in lakhs of rupees)*

<i>Year</i>	<i>Amount of paid up value of shares debentures as on 30/6 of each year</i>	<i>Paid up capital plus Reserve as on 30/6 of each year</i>
1960-61	152	141
1961-62	216	141
1962-63	321	144
1963-64	466	144
1964-65	552	198
1965-66	673	250
1966-67	727	307
1967-68	752	313
1968-69	763	349
1969-70	755	380
1970-71	745	390
1971-72	777	430
1972-73		

SOURCE: Annual Reports.

factors that should be borne in mind, the other aspects like the Corporation becoming the agency for providing valuable bridge finance to meet the gap, if any, in financing plans of individual concerns, its role in serving as a catalyst triggering the much-needed industrial activity and its role as an agency that is alive to meet the challenging and changing needs of industrial ventures, etc., will all have to be borne in mind.

The Tamil Nadu Industrial Investment Corporations' experience has proved that though its investment in shares seems beyond its paid-up capital and reserves, it has been able to do fairly safe business. Perhaps, the real capital base of the Corporation, which ensured its viability, was the solvency of the State Government, even as the real capital base of the Reserve Bank is the solvency of the Central Government and not the amount formally subscribed as share capital. It,

therefore, appears incorrect to attach too much sanctity to ritualistic mathematical formulae regarding the proportion that the share capital investment should bear to the owned funds of a Finance Corporation. It is the project that should matter and not the proportions indicated by the Reserve Bank.

#### DIRECT SUBSCRIPTION

To analyse in greater detail the investments of the Corporation, let us turn to its direct subscriptions.

As stated earlier, the Corporation has been directly subscribing to the shares of industrial concerns since 1960. To date the Corporation has taken up such direct subscription in 15 cases to the tune of Rs. 364.31 lakhs of which Rs. 96.45 lakhs was in preference shares and Rs. 267.86 lakhs was in equity. Except in the case of two companies, in all other cases both equity and preference shares were directly subscribed. It is also noted that there is no prescribed or strict ratio being followed between the two types of investments. Apparently, the proportion between these two types of shares is based on *ad hoc* decisions. It also implies that here again the Corporation had an open mind and was never tied down to any excessive attachment to the principle of "playing it safe" by investing in preference shares with prescribed, assured, returns, as against equity shares which are more risk-bearing.

It is also seen that the Corporation resorted to direct subscription not only in cases which involved large investments of Rs. 100 to 150 lakhs in each case but also in small cases with only an investment of Rs. 1.5 lakhs.

Adverting to the size distribution of these direct subscriptions, it is noted that out of Rs. 364.31 lakhs as much as Rs. 250.00 lakhs was taken up by just two companies, *i.e.*, nearly 68 per cent of the total direct subscriptions. In 9 cases, the amount invested was below Rs. 10 lakhs in each case, in four cases, it was between Rs. 10 and 35 lakhs only. It is also noted that as much as Rs. 313 lakhs out of Rs. 364.31 lakhs (86%) was directly subscribed in the very first year when the Corporation took to share investment, *viz.*, 1960. After that year, direct subscriptions have not been of the same order as such, and in 1961 only Rs. 12.95 lakhs was directly invested (1 case), in 1963 Rs. 17.50 lakhs was invested (1 case), in 1969 Rs. 2.75 lakhs (2 cases), in 1970 Rs. 6 lakhs (1 case), and in 1971 Rs. 6.10 lakhs (1 case), in 1972 Rs. 2½ lakhs (1 case) and in 1973 Rs. 2 lakhs (1 case only). It is seen that the proportion of shares being invested directly has registered a steady downward trend.

**UNDERWRITING OPERATIONS — PERIOD-WISE ANALYSIS**

Between 1960 and March 1973, the Tamil Nadu Industrial Investment Corporation has underwritten by issue of shares in 83 companies to the tune of 1415 lakhs of rupees. Briefly put, the pattern has been as follows:

**TABLE 5**

<i>Year</i>	<i>Number of companies in which underwriting was done</i>	<i>Value of shares underwritten (Gross) in lakhs of rupees</i>	<i>Value of underwriting per year (Rs. in lakhs)</i>
1960-65	46(55.4%)	1,020(72.00%)	204
1965-68	22(26.5%)	248(17.8%)	82.66
1968-73	15(18.1%)	147(10.2%)	29.4
Total	83(100%)	1,415(100%)	

It will be observed from this table that between 1960 and 1965, the Corporation has underwritten on an average Rs. 204 lakhs per year, and in 1968-73 it fell further to Rs. 29 to 30 lakhs only year per. It is therefore evident that 1965 marks a turning point in the history of underwritings by the Corporation. As stated earlier on, it was in 1964 that the Reserve Bank of India's Act was amended by which it could issue directions to financial institutions accepting deposits from the public and generally control and supervise their operations. In 1965, the Reserve Bank came forward with suggestions for re-organising the operations of the Corporation and with the concurrence of the State Government, specified that the Corporation should not underwrite shares beyond Rs. 25 lakhs. As a result, from 1965 onwards the quantum of investment in shares by this Corporation registered a downward trend. One cannot but wonder whether this directive by the Reserve Bank did not unwittingly lead to a slowing down of industrial development.

***Quantum-wise Analysis***

The pattern of the size distribution of underwritings made by the Corporation is given in Table 6.

TABLE 6

<i>Amount underwritten in each case</i>	<i>No. of Companies</i>	<i>% of total companies whose shares were under-written</i>	<i>Amount under-written in lakhs of rupees</i>	<i>% of total under-writings</i>
(i) 5 lakhs and below	33	39.76	172.46	12.18
(ii) 6 to 10 lakhs	19	22.89	193.57	13.7
(iii) 11 to 15 lakhs	14	16.86	197.65	14.0
(iv) 16 to 20 lakhs	2	2.41	83.00	5.8
(v) 21 to 25 lakhs	6	7.23	147.00	10.39
(vi) 26 to 50 lakhs	4	4.82	176.00	12.44
(vii) 51 to 100 lakhs	4	4.82	295.00	20.85
(viii) 101 lakhs and above	1	1.21	150.00	10.60
Totals	83	100.00	1415.00	100.00

It is seen that as on date in 74 out of 83 cases (89.1 %), the Corporation has underwritten sums less than Rs. 25 lakhs in each case. This category absorbed Rs. 798 lakhs out of a total underwriting of Rs. 1415 lakhs (*i.e.*, 56.3%). At the other end of the spectrum is the case of 5 companies out of 83 (*i.e.*, 6%) where the Corporation underwrote sums beyond Rs. 50 lakhs in each case totalling Rs. 445 lakhs out of a total underwriting of Rs. 1415 lakhs, *i.e.*, 31.4 per cent.

Earlier it was stated that 1965 marks a turning point in the underwriting career of the Corporation. The effect of the restriction of the Reserve Bank becomes clearer from the following table:

TABLE 7

<i>Year</i>	<i>Number of companies where underwriting below Rs. 25 lakhs was done</i>	<i>Number of companies where underwritings above Rs. 25 lakhs in each case was done.</i>
1960-65	37	9
1965-70	29	—
1970-73	8	—
Total	74	9

It is evident from Table 7 that after 1965, there has been no single case where the Corporation underwrote sums beyond Rs. 25 lakhs. This table also makes it clear that on an average between 1960 and 1965, the Corporation underwrote 9 cases per year whereas the same has fallen to 6 cases per year between 1965 and 1970 and at present it is only 2 to 3 cases on an average per year. While this sharp fall may reflect the general industrial recession in the country, there is no gainsaying the fact that the curbs imposed by the Reserve Bank on the quantum of underwriting has acted as a deterrent on the Corporation.

### *Category-wise Analysis*

Analysing the underwritings done by the Corporation in equity and in preference shares separately, it is seen that the Corporation never prescribed any strict ratio or direction of investment to be followed in underwriting these two categories of shares. As is well known, investment in preference shares is the safer and less risky form of investment compared to investment in equity holdings. Out of the total underwritings of nearly 1415 lakhs of rupees, the Tamil Nadu Industrial Investment Corporation underwrote as equity Rs. 1092 lakhs (*i.e.*, 77.9%) whereas it underwrote only Rs. 323 lakhs (22.1%) as preference shares.

It is also observed that of the 83 companies whose shares were underwritten by the Corporation, in all cases, except 5, it has underwritten both equity and preference shares of the companies. In the case of only 5 companies it has chosen to underwrite only preference shares, the amount underwritten being Rs. 36.20 lakhs of rupees.

Analysing separately the amounts of underwritings in preference shares, it is seen that out of a total of Rs. 322.60 lakhs worth of preference shares underwritten, as much as Rs. 203.45 lakhs was underwritten in 10 companies only; thus 63.1 per cent of the total underwritten amount in preference shares was absorbed by 12 per cent of the companies whose shares were underwritten. A similar analysis of the underwritings of equity shares shows that 45.1 per cent of the total underwritings, *viz.*, Rs. 492.00 lakhs out of Rs. 1092.25 lakhs of equity shares underwritten were accounted for by only 10 out of 83 companies, *viz.*, 8.3 per cent.

### *Analysis Based on the Size of the Unit*

Among the 83 companies whose shares were underwritten by the Corporation, only one was a small scale industrial unit. This is understandable as most of the units which go to the capital issues market



and float shares belong to the large scale category. The financing pattern of the small scale industrial units is closely oriented normally towards loans and advances obtained from the Government under the State Aid to Industries Act or from the advances portfolio of the commercial banks.

A single small scale unit whose share was underwritten by the Tamil Nadu Industrial Investment Corporation was a textile machinery manufacturing unit, set up to manufacture rings, spindles and fluted rollers, at an issued capital of Rs. 7 lakhs only, of which the promoters had raised Rs. 3.57 lakhs and Rs. 3.43 lakhs was offered to the public. In this public issue, the Corporation underwrote Rs. 1.75 lakhs and picked up Rs. 1.72 lakhs. This company was able to declare a nominal profit only in 1970 though it was set up in 1964 and so far it has not been able to declare any dividend. But, it is interesting to record here that even for this small scale venture, it obtained collaboration from Japan to make high speed spinning rings. But for the Tamil Nadu Industrial Investment Corporation's contribution of 25 per cent of the total issued capital, this individual unit may not have been set up at all.

#### *Analysis of the Lapses*

So far an analysis has been done of the gross underwritings done by the Tamil Nadu Industrial Investment Corporation. Let us now turn to an analysis of the lapses. The difference between gross underwritings and the net underwriting sanctions made by the Corporation represent the lapses. Lapses occur whenever an industrial unit whose shares were underwritten never got off the launching pad either because the promoter did not pursue his project or because he switched over to other financial institutions for financing and did not pursue the project with the Tamil Nadu Industrial Investment Corporation.

The position regarding lapses has been as follows:

TABLE 8

<i>Year</i>	<i>Gross under-writings</i>	<i>Net under-writing sanctions</i>	<i>Lapses (col. 3 col. 2)</i>	<i>% of col. 4 to col. 2</i>
Up to 1965				
Up to 1970	1326.10	947.68	378.42	26.7
Up to 1971	1377.45	958.93	418.52	30.4
Up to 1972	1393.10	971.58	421.52	30.2
Up to 1973	1414.85	993.33	421.52	29.6

Figures in lakhs of rupees and refer to position as on 30/6 each year.



It is evident from Table 8 that on an average 30 per cent of the gross underwritings done by the Tamil Nadu Industrial Investment Corporation has lapsed.

*Analysis of Underwritings Picked up by the Corporation*

Normally the efficiency of an underwriting institution is in inverse proportion to the quantum of its own underwritings that it has had to pick up. An underwriter canvasses investors for the issue long before it is thrown open to the public so that a major portion of the issue, if not the entire issue underwritten by it, is taken up by the other investors. Judged by this yardstick the Tamil Nadu Industrial Investment Corporation has not been a success as it had to pick up as on March 31, 1973 Rs. 770.50 lakhs out of a net underwriting of Rs. 1007.63 lakhs, *i.e.*, 23.6 per cent only of its underwritings were picked up by others. This poor state of affairs may partly be because the capital investment market of the country especially in Madras is generally rather sluggish.

The following table indicates the amount of the Corporation's underwritings picked up by the public and by itself.

TABLE 9

<i>Year</i>	<i>Total under-writing sanctions</i>	<i>Total picked up by TIIC</i>	<i>Total public subscription in the amount under-written by TIIC</i>	<i>Proportion of col. 3 to col. 2</i>	<i>Proportion of col. 4 to col. 2</i>
Upto 30-6-1970	961.98	763.43	198.55	79.3%	20.7%
Upto 30-6-1971	973.23	773.39	200.04	79.5%	20.5%
Upto 30-6-1972	985.88	762.21	223.67	78.2%	21.8%
Upto 31-3-1973	1007.63	770.15	237.48	76.4%	23.6%

(i) Including underwriting of 14.30 lakhs in debentures of textile company.

(ii) Figures are in lakhs of rupees.

SOURCE: Annual Reports

*Industry-wise Analysis of net Underwritings*

An industry-wise analysis of net underwritings of a financial institution will indicate the categories of industries promoted by that institution. In the case of the Tamil Nadu Industrial Investment Corporation it is seen that as on March 31, 1973 the pride of place in the order of priority goes to the following industries:

TABLE 10

<i>Type of industries</i>	<i>Amount under-written as on 31-3-'73.</i>	<i>% to total under-writings as on 31-3-'73.</i>	<i>Number of units</i>
1. Aluminium industry	150.00	14.8	1
2. Units engaged in production of non-metallic mineral products	130.86	12.9	11
3. Units engaged in manufacture of chemical and chemical products	123.35	12.1	13
4. Units engaged in manufacture of paper paper products	111.00	11.0	3
5. Basic metal industries	102.30	10.1	13
6. Units manufacturing electrical machinery and apparatus	93.00	9.2	9
	710.51	70.1	

It will be seen that as on date, six modern industrial groups have accounted for 70.1 per cent of the total underwritings of the Corporation. These groups of industries covered 50 concerns out of 83, i.e., 59.3 per cent of companies in which the Corporation has under-written shares.

The rest of the total underwritings (30%) was widely dispersed.

over the categories of industries given in Table 11.

TABLE 11

<i>Type of industry</i>	Total net under- writings	No. of concerns
1. Sugar industry	80.00	8
2. Units engaged in manufacture of machinery except electrical machinery	68.50	12
3. (Shipping Cargo) carrier industry	50.00	1
4. Manufacture of rubber and rubber products including rubber ebonite	26.25	3
5. Manufacture of products of petroleum and coal	25.00	1
6. Manufacture of textiles	15.00	1
7. Manufacture of transport equipment, etc.	12.62	3
8. Hotel industries	11.25	2
9. Distribution of electricity, gas and water	5.00	1
10. Food manufacturing industries	2.50	1
11. Miscellaneous manufacturing	1.00	1

SOURCE: Annual Report and Statement of Accounts for 1972-73.

*Analysis of Shares Underwritten as a Percentage of the Amount of Each Public Issue*

As on 1971 the value of the shares underwritten by the Tamil Nadu Industrial Investment Corporation as a percentage of the amount of each public issue ranged between 6 and 100 per cent. A classification of issues of capital underwritten by the Corporation according to the

percentage of the amount at par to the public issue for each case was as follows:

TABLE 12

<i>Percentage of amount of public issue</i>	<i>Number of issues</i>
Above 70%	6
61 to 70%	3
51 to 60 %	3
25 to 50%	37
Less than 25%	6

SOURCE: Report of the working group of Reserve Bank of India on Resource Mobilisation and Profitability of State Finance Corporation.

It will be seen that in the majority of cases, the Corporation has underwritten more than 25 per cent of the public issue. Out of 9 cases, where it underwrote more than 60 per cent, 7 cases consist of concerns where the Corporation underwrote small amounts ranging between 3.25 and 15 lakhs of rupees only. In 2 out of 9 cases, however, the Corporation underwrote sums which ranged between 50 to 100 lakhs of rupees in each case out of the public issue of Rs. 70 lakhs and Rs. 145 lakhs respectively.

#### ANALYSIS OF THE PROPORTION OF PAID UP CAPITAL OF INVESTED COMPANIES HELD BY THE CORPORATION

It is seen that as on 1971, only in the case of nine companies the Tamil Nadu Industrial Investment Corporation held between 26 to 33 per cent of the paid-up capital of the concerns in which it invested. These proportions ranged between 11 and 25 per cent for 33 companies and in the case of 7 companies it constituted less than 10 per cent. It is of interest to record here, however, that whatever the proportion of paidup capital held by the Corporation, it insisted on one of its representatives being nominated as a Director on the Board of the concern whose shares it has taken up.

## ANALYSIS WITH REFERENCE TO GESTATION PERIOD OF PRODUCTS

*Share Capital*

It is observed that as on 1971, of the 49 companies whose shares were taken up by the Corporation, 13 were either already in production or went on stream within one year from the date the Corporation invested in it. In 16 cases, the time taken for production was between 1 and 2 years and in 11 cases, it was 2 to 3 years and in 6 cases it was between 3 and 4 years. In 3 cases, however, it took more than 4 years to commence production. It will be noticed that generally the companies in which the Corporation has invested have been fairly prompt in commencing business after receiving the contribution from the Corporation.

## ANALYSIS WITH REFERENCE TO DIVIDEND RECEIVED

It will be observed that as on March 31, 1973, 24 out of 54 companies in which the Corporation held shares are paying dividends. A classification of these companies on the basis of the time taken for payment of dividends after the Corporation contributed to their shares is as follows:

TABLE 13

<i>Time taken after investment in shares by T.I.I.C.</i>	<i>Number of companies</i>
1. Less than one year	4
2. One to two years	1
3. Two to four years	6
4. Four to six years	8
5. Above six years	5
	<hr/> 24

It is noticed that companies in which the Tamil Nadu Industrial Investment Corporation held equity shares worth Rs. 402 lakhs yielded dividends ranging between 6 and 15 per cent. Generally, the preference shares held by the Corporation yielded at the pre-determined guaranteed cumulative rate of about 9.3 per cent. The Corporation holds

Rs. 97 lakhs worth of preference shares in those companies which declared dividend in 1973.

The dividend income received by the Corporation was as follows:

TABLE 14

(Figures in lakhs of Rupees)

<i>Year</i>	<i>Amount of dividend income received</i>
1962-63	0.62
1963-64	1.01
1964-65	2.70
1965-66	12.79
1966-67	21.34
1967-68	8.85
1968-69	40.82
1969-70	29.11
1970-71	32.50
1971-72	56.32
1972-73	28.40

It is observed that as on March 31, 1973, on an average share investment of Rs. 575 lakhs over 12 years, the Corporation got Rs. 234 lakhs as dividend income which works out to a bare 4.0 per cent return on capital. This, no doubt, is a very poor return when compared with even the interest that can be earned by allowing the money to lie idle in fixed deposits. However, the Corporation seems to feel that the projects in which it has invested are sound and that having waited so long, for a return on investment, it should wait till it gets the maiden dividend before it offloads its holdings on the market, if at all it does off-load.

However, due to the persistent suggestion by the Reserve Bank to sell its share holdings, the Tamil Nadu Industrial Investment Corporation has recently sold shares in 9 companies. It sold preference shares worth Rs. 54.97 lakhs and equity shares worth Rs. 17.56 lakhs. These sales transactions resulted in no-profit-no-loss in four cases

(Rs. 35.08 lakhs worth of shares), in one case it incurred a nominal loss of Rs. 65,000 (Rs. 12.95 lakhs worth of shares), in four cases, it however, made a marginal profit on a sale of shares worth Rs. 24.50 lakhs.

The Tamil Nadu Industrial Investment Corporation holds shares in 34 companies, which have declared no dividends at all till March 31, 1973. Classifying these investments according to the number of years that have elapsed since the Corporation made the initial payment towards the shares, the following pattern emerges.

TABLE 15

<i>Number of years since first payment for shares were made by T.I.I.C.</i>	<i>Number of Companies</i>
(1) More than six years	18
(2) Four to six years	4
(3) Two to four years	4
(4) One to two years	1
(5) Less than a year	3

It will be observed that in as many as 18 companies out of 34, the Corporation has had to wait for periods beyond six years and yet sees no prospect of realising the dividend on its investment.

#### ANALYSIS OF THE SHARE INVESTMENTS AS PER QUOTATIONS IN STOCK EXCHANGE

It is observed that as on March 31, 1973 barring 4 companies whose shares were not quoted in stock exchange, the shares held by the Corporation are quoted. In these 4 non-quoted companies, the Corporation holds Rs. 15.39 lakhs worth of shares which can be considered fairly negligible.

As on March 31, 1973 the shares of 11 companies (all equity shares) were quoted at a premium and the total appreciation in the value of the investment of these shares amounted to Rs. 96.29 lakhs rupees only over a base of Rs. 302.20 lakhs. It is also interesting to note that of these 11 companies, whose shares are quoted at a premium, 10 companies have declared dividends in 1973.

As on March 31, 1973 the shares of 15 companies held by the Corporation were quoted at a discount. The total depreciation in the value of investment compared to their face value amounted to Rs. 59.90 lakhs on a base of Rs. 264.12 lakhs. It is also to be noted that six out of these seventeen companies whose shares are quoted at discount have declared dividends.

The rest of the shares are quoted at par.

However, one cannot take at face value, the market value figures as given in the Annual Reports of the Corporation. No doubt the Corporation quotes the rates as indicated by the stock exchange. In the stock exchange reports, even stray and sporadic sales which are not very representative are taken into account. An attempt was made to analyse the market value figures of a few companies which have declared dividends to see whether the market value at least reflects the capitalised value of the money needed to earn that dividend income at current market rates of interest. Capitalising the dividend income flow at an assumed rate of interest of 9 per cent, the market value of a Rs. 10 share in the case of a sugar company which declared a dividend of 15 per cent ought to have been around Rs. 16.06. However, the market quotation is reported to be at par as on March 31, 1973. Similarly, the capitalised value of an aluminium company share of Rs. 100 comes to Rs. 133.00 as against the market quotation of only Rs. 104 even when it has declared a dividend of 12 per cent on its equity shares. Similarly, the capitalised value of a cement unit with a 100 rupees share and a dividend of 6 per cent was registered as selling below par in the market.

The market values of the portfolios held by a development bank like the Tamil Nadu Industrial Investment Corporation are not therefore a sufficient indicator of the real worth of the shares.

#### ANALYSIS OF THE UNDERWRITING COMMISSION RECEIVED

Table 16 indicates the amount of underwriting commission received by the Tamil Nadu Industrial Investment Corporation over the years.

It is observed that, on an average, the Tamil Nadu Industrial Investment Corporation has been charging  $2\frac{1}{2}$  per cent as underwriting commission.

To sum up, therefore, an analysis of the share investment activities



of the Tamil Nadu Industrial Investment Corporation makes an interesting study of the various aspects of the role of a development bank in promoting industrial growth in a state.

TABLE 16

<i>Year</i>	<i>Amount of under-writing Commission</i>
	Rs.
1960-61	8,12,500
1961-62	1,55,950
1962-63	1,84,375
1963-64	2,67,500
1964-65	4,14,375
1965-66	1,87,862
1966-67	88,438
1967-68	73,750
1968-69	64,750
1969-70	90,625
1970-71	45,875
1971-72	18,750
*1972-73	16,625

\*For the period upto 31-3-'73. Other figures refer to the period upto 30/6 each year.

## TRAINING AND RESEARCH NEEDS FOR AGRICULTURAL MANAGEMENT

V. R. Gaikwad

AGRICULTURAL development has long been recognized as a difficult task. Even when appropriate policy decisions for agricultural development have been taken, results have not been up to the expectations due to major weaknesses at planning, formulation, and implementation levels. In 1967, Lokanathan observed that "despite mobilisation of more resources than envisaged, the performance during the Third Plan was poor, because of faulty planning of projects and their bad execution."<sup>1</sup> He also pointed out how the slack in agriculture (an increase of less than 15 per cent against the target of 30 per cent) had dislocated the economy. The Administrative Reforms Commission observed that "the academic and theoretical exercises and projections by the Planning Commission are poorly reflected in performance."<sup>2</sup> Similar observations have again been made recently by many at the policy-making level.

Poor performance in the past on the agricultural front could be attributed mainly to administrative deficiencies as could be seen from the numerous evaluation reports of the Planning Commission and of the committees constituted by the Government of India from time to time to go into the problems of agricultural production, as well as from the observations of eminent economists and public administration experts.<sup>3</sup> Incidentally, it is significant that few feel that there is anything basically wrong with the Indian farmers to blame them for failure on the agricultural front.

<sup>1</sup> "Lokanathan Warns of Defective Planning," *Indian Express*, Feb. 6, 1967.

<sup>2</sup> Administrative Reforms Commission, *Report of the Study Team on Agricultural Administration*, New Delhi, Government of India Press, 1967, I, p. 291.

<sup>3</sup> "Administrative lapses have universally contributed towards shortfalls in implementation of agricultural schemes and thereby directly caused shortfalls in production", *The Report of Agricultural Administration Committee*, 1958, p. 4; "Unsatisfactory administration and organizational arrangement was, by far, the most important single factor responsible for inadequate progress in the sphere of agricultural production," *The Report of the Working Group on Inter-departmental and Institutional Coordination for Agricultural Production* (cyclostyled), 1963, p.1; See also Prof. M. L. Dantwala's views in "Faulty Implementation of Farm Plans, *Indian Express*, *op. cit.*

The purpose of this paper is (1) to highlight the rapid expansion of government activities in the agricultural sector, (2) to discuss the areas and nature of management tasks in the light of expansion of activities, (3) to develop a framework for training courses in agricultural management, and (4) to identify broad areas of research which would provide a base for developing the training programmes.

## II

### *Expansion of Activities*

With the changing socio-political ethos and the new directions that are emerging on the national canvas, the burden on agricultural administrators is changing in workload as well as in behavioural reorientation, and new conceptual and management skills are required by new directions.

For example, during the Fourth Plan period the concept of social justice and equitable distribution of income was introduced. The Fourth Plan emphasized the importance of small farmers and marginal farmers and their economy.<sup>4</sup> This resulted in creation of new agencies, Small Farmers Development Agencies (SFDA) and Marginal Farmers Development Agency (MFDA), which will continue in the Fifth Five Year Plan.

The community development programme was introduced in the early 1960s. It tried to achieve functional integration by establishing an integrated staffing pattern by bringing together a team of subject matter specialists at the block level. However, it failed to achieve results, and a new concept of integrated area development—spatial integration of all economic and social activities, also known as growth centre concept—has been introduced during the Fourth Plan period. This concept refers to the “appropriate location of social and economic activities over a physical space for the balanced development of a region”.<sup>5</sup>

In the approach to the Fifth Five Year Plan, the major emphasis is on undertaking development programmes which are employment oriented. Towards this a variety of programmes and projects falling

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<sup>4</sup> Planning Commission, Government of India, *Approach to the Fourth Five Year Plan*, May 1968, pp. 10-11.

<sup>5</sup> Lalit Sen, et al., *Planning Rural Growth Centres for Integrated Area Development: A Study of Miryalguda Taluka* (Hyderabad, National Institute of Community Development, 1971), p. 2.

within the agricultural sector are being introduced in the country. Production and supply of key inputs, such as water, power, fertilizers, high yielding varieties of seeds, and machinery, are being progressively brought under the direct control and management of the government. New government controlled corporations, such as Fertilizer Corporation of India, National Seed Corporation, and Rural Electrification Corporation have been established. Nationalized banks have been directed to give substantial advances to the agricultural sector and specially help the weaker sections of the farming population.

The government has also increasingly taken up the responsibility of providing services and facilities to farmers and of establishing agro-processing industries. For these activities State governments have established agro-industries corporations. The government is already in food procurement and distribution activity through the State government agency and the Food Corporation of India. Recently, it has taken over the entire procurement of wheat from the middleman and is in the food distribution business. It is likely that during 1973-74, it may even take over the procurement of rice. It is also in the production field by establishing a number of large State farms under the control of the State Farms Corporation of India.

Thus, the government has taken up numerous production programmes of key inputs, supplies and credit programmes, communication and extension programmes, and procurement, processing and distribution programmes.

Consequently, the government's activities in agricultural sector have been expanding very rapidly. However, there are no deliberate corresponding efforts to develop the skills required to manage these activities. The only efforts made so far in this direction are establishment of the Centre for Management in Agriculture (CMA) at the Indian Institute of Management, Ahmedabad in 1963 and the National Training Centre for Agricultural Development and Project Planning at the Indian Agricultural Research Institute, New Delhi, in 1971. A few agricultural universities have started departments of management. But, because of normal constraints under which the universities function, many of these departments could not be suitably staffed and organised. Other institutions which are doing the same work in this field are the National Institute of Community Development, Hyderabad, established in 1958 and the Vaikunth Mehta Institute of Cooperative Management\*, Poona, established in 1966. But, in these Institutes, the

\* Previously known as Central Institute of Management for Consumer Business, run by the National Co-operative Development Corporation, Bombay.

emphasis is more on information and specialized training and less on problem-solving management techniques and skills required in the agricultural sector.

Due to rapid expansion of government activities and also due to lack of foresight, today the administrative machinery (including agricultural and allied departments of State and Central government, and government controlled corporation) is ill-equipped to plan, formulate, and implement development programmes and activities, and to take right decisions at the right time. Under these circumstances, it is doubtful whether the machinery would be able to show a better performance than in the past.

### III

#### *Areas and Nature of Management Tasks in Agricultural Sector*

Development of training programmes suitable for organization, planning, and implementation of programmes and projects in agricultural sector requires a clear understanding of the functional components of modern agriculture. According to Mosher, there are three main functional components of agriculture—(1) Farming, (2) Agri-Support, and (3) Agrimilieu. He observes that in a subsistence agriculture “each farmer uses only his own land and family labour. In modern agriculture farming is still central, but each farm becomes only the assembly line, utilizing and combining many different types of inputs drawn throughout the economy”. The agri-support has two functional components—(a) Commercial production, distribution of farm inputs, marketing, processing, and distribution of farm products; production credit for farmers, and (b) Non-commercial research, extension, training of agricultural technicians. The agricultural milieu has three components—(a) *Political*: farmers’ participation in the political process, policies on land tenure, prices and taxes, agricultural development, (b) *Economic*: transportation, foreign trade, domestic industries and services, and (c) *Cultural*: traditions and values, social structure, and general education.<sup>6</sup>

According to Mosher, “*Basically, the task of public organization and planning is to assure an adequate and appropriate development of agri-support activities, both commercial and non-commercial, and to activate appropriate changes in the agri-milieu.*” In the Indian context, it could be seen that the development of agri-support activities

<sup>6</sup> A. T. Mosher, *To Create a Modern Agriculture: Organization and Planning* (New York: Agriculture Development Council, Inc., 1971), pp. 5-9.

<sup>7</sup> *Ibid.*, p. 9

is now not left to the private sector, but these activities are increasingly brought under the direct management and control of the government. There are also indications that in future the government is likely to get more and more involved in the farm business either directly as in the case of the State Farms Corporation, the National Seeds Corporation etc., or indirectly through collective farming as was recently done in Kerala.<sup>8</sup>

Considering the overall magnitude of the agricultural sector, the new directives that are being given by the policy makers, and the variety of activities undertaken by the government, it is clear that development of training programmes for modernizing agricultural administration is bound to be the most difficult task.

Political ideology leads to national policy on development which is transformed into action through alternative operational strategies using various administrative techniques. The policy makers need help not only in clearly defining a policy but also in bringing out the possible implications of the policy. The administration at higher levels of organization requires the skill in working out the relative effectiveness of alternative operational strategies as well as work out appropriate management techniques for the execution of development programmes. For effective operation, key functionaries at various levels are required to monitor the progress of a scheme, exercise control over the activity, and provide mid-course corrections. Thus, at every phase of an activity, right from scanning the environment to planning, formulation, and implementation, certain specific decisions are taken which require the administrative skills as well as knowledge of and expertise in handling new management techniques.

### *Nature of Management Tasks*

In general, the basic management tasks for any activity are planning, organizing, staffing, supervision and control, and evaluation. These tasks are performed in relation to a specific activity or a combination of activities and in relation to a given environment.

In the agricultural sector, modernization of administration demands (a) development of organizational structures appropriate to the activities to be performed, (b) application of modern tools and

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<sup>8</sup> The first collective farm in India was inaugurated on April 2, 1973, at Illithode, in Ernakulam District, Kerala. This collective farm with the estimated investment of Rs. 55 lakhs is reported to be heading towards disaster due to faulty administration. See *The Economic Times*, May 10, 1973.

techniques of management, (c) understanding of new roles that need to be performed by the government functionaries at various levels according to the demands of activities, (d) basic attitudinal changes corresponding to new roles, and (e) sense of commitment to the programme objectives as decided by the policy makers.

After Independence, certain organizational changes have been introduced at the district level, which for all practical purposes is the operating unit.

The first major change came with the concept of community development, through which the community development block organization was introduced. The block organization system was based on dual line of command on the technical staff, both at the district level and at the block level. In the block system the combined load of regulatory and development and extension functions were carried out by the same functionaries—the Collector at the district level and the Block Development Officer at the block level. With the blocks, two new functionaries—village-level worker and extension officer—were introduced. When the block system was introduced, it was somehow felt that this structural change and addition of a few new functionaries alone would improve the efficiency of the system. No thought was given to procedural aspects of administration; old rules and regulations and procedures were followed. Recruitment and personnel policies did not change. As such a new culture suitable to development administration did not develop in the system.

The Incentive Agricultural District Programme (IADP) was the second major innovation in the system introduced in 1960-61. The IADP brought into the system a number of technical experts at the district level. It also introduced at the district level for the first time the concept of a project leader for agricultural programmes. After about thirteen years of IADP working, there is a feeling now that IADP has, after all, not made any appreciable impact on the production of food grains and that the programme needs to be evaluated. As in case of blocks, in IADP also not much attention was paid to procedural aspects of administration as well as to the system of working at the district and levels below it.

Introduction of special agencies—Small Farmers Development Agency (SFDA) and Marginal Farmers and Agricultural Labour Development Agency (MFALDA)—to cater to the need of special class of people is the third major innovation in the country. It is doubtful whether these agencies would be able to give the results because all the

the programmes of these agencies are implemented through the same district and block administrative machinery which is neither organized for nor geared to efficient performance.

Failure of these innovations has resulted to a great extent in the failure on production front. These failures focus attention on the need for appropriate organizational structure for agricultural development. In addition, failure on the procurement and distribution front also indicates need for efficient organization. It seems that drastic changes are required in the administrative machinery in the delegation of authority, pin-pointing seats of decision-making and responsibility, procedures and norms of working, monitoring the progress and evaluation, and so on.

Modern tools and techniques of management consist of sufficient critical and analytical approach to problems; understanding of cost implications of various operations and of methods for getting results more economically and speedily; proper system of collection, analysis, preservation, and retrieval of information; methods of developing alternative strategies and for choosing one which is more economical and which can be accomplished with the given resources; understanding of critical review techniques for monitoring the progress and for evaluation of programmes. Few of these tools and techniques find place in the existing system. Structural changes alone will not give results, unless these tools and techniques are adopted at all the levels of the organization.

As pointed out earlier, government activities in the agricultural sector are rapidly increasing in scope, programmes, and magnitude. For many of these activities, there is no precedence. These activities called for new definition of roles of functionaries and development of new norms.

According to Dube, bureaucracy has a three-fold role to play in economic development. "First, it has to provide the minimum pre-conditions and basic infrastructure of economic development. Second, it has to prepare the blue-prints of development and devise variable and dynamic strategies for their effective and efficient implementation. Third, it has to assess and evaluate the results of its efforts, watch their intended and unintended consequences, and ensure evaluation and progress of its own mechanics."<sup>9</sup> Pai Panandikar observed that in the developmental administration the role of the administrator

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<sup>9</sup>S. C. Dube, "Bureaucracy and Economic Development", *Indian Journal of Public Administration*, Vol. XII, No. 3 (July-September 1966), p. 344.



changes from an "executive" to a "managerial" one. According to him, "The 'executive' type of administration is largely designed to carry out the directions given from time to time by the government . . . . The emphasis of the 'executive' oriented administration is principally to implement the policies and programmes . . . . In contrast, the 'managerially' oriented 'developmental' administration is essentially programmatically inclined . . . . The emphasis here is not on appropriational authority or on preventing disequilibrating forces but on the attainment of goals and targets established in the planned programmes of the government which in fact may have built-in forces disturbing social equilibrium."<sup>10</sup>

Confusion regarding regulatory, law and order role and developmental role is quite widespread. It is often not realized that instead of being contradictory roles, these could be complementary roles. In a society changes created by developmental programmes may bring out forces that could create law and order problems detrimental to development. On the other hand, unimaginative handling of the law and order situation due to lack of sensitivity to people's aspirations and genuine grievances may accentuate problems and built-up tensions which could be harmful to development. For example, the green revolution in Tanjavur district accentuated conflict between the landlords and agricultural labourers due to increasing disparity in income. Similarly, unless government's law and order machinery steps in to help the weaker sections, and the socially underprivileged of the population against the on-slaught of vested and feudal interests, no amount of effort for their economic and social uplift would be fruitful. Thus, in both these situations the maintenance of law and order role and development role are complementary.

It is unlikely that government functionaries would be able to play the 'developmental' role unless there are corresponding attitudinal changes.

It is a well-established fact that government functionaries all along the line have favoured the well-to-do, rich farmers who are the rural elite. The administrative machinery generally depends on the rural elite while implementing development programmes. The elite in its turn is supposed to pass on the knowledge and practices to the masses and to achieve and motivate them for change. The rural elite, in a way, functions as agents or middle-men. However, this elite is not neutral or impartial and has a deep vested interest in programmes of the

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<sup>10</sup> V. A. Pai Panandiker, "Development Administration: An Approach", *Indian Journal of Public Administration*, Vol. X, No. 1 (January-March 1964), pp. 36-37.

government.

The village level functionaries, the elected leaders, the village influentials, all work hand in hand as "gate keepers", decide what information, when, and in what form should reach the ignorant poor section of the population. They decide who should be benefited and who should not be. The poor sections are generally ignorant about the whole affair and have little voice even in the schemes meant for them. The strategy of involving influentials and opinion leaders in the communication of new ideas to masses makes a basic assumption that the influentials and opinion leaders have an intrinsic desire or are motivated to communicate information to the masses. However, it is now realized that such is not the case. The emerging rural leadership is essentially power-oriented. Rural leaders come from the upper strata of rural society, and, by and large, exercise direct or indirect control over the economic, political, and socio-cultural institutions.<sup>11</sup>

The officials generally identify themselves with the rural elite. The elite approach appeals to the officials of the implementing machinery for the following reasons. The elite generally take up new programmes without much hesitation, either because they have the financial capacity to take the risks or they are progressive and know the benefit they would receive from such programmes. Sometimes they may take up the programmes just to oblige the block staff to fulfil its targets without effort. The elite is in a position to provide facilities such as tables, chairs, cots, and refreshments, and to arrange a place for a meeting. Now-a-days officials do not camp in villages, but thanks to better roads and jeeps, generally make quick 'touch and go' types of tours. Since they themselves do not spend much time in the villages, they depend on the local influentials to help them achieve the results.

If the officials' entire identification, contact, and communication is with the rural elite, how can they help the weaker sections of the population? Officials often reveal an attitude of utter contempt

<sup>11</sup> Leela Dube, "Leadership in Community Development and Decentralized Democracy" (Typescript). Paper submitted to International Development Seminar on Community Development and Local Government, East-West Centre (1965), p. 12; L.K. Sen, *Opinion Leadership in India: A Study of Inter-personal Communication in Eight Villages* (Hyderabad, National Institute of Community Development, 1969), p. 33; S.C. Dube, "A Note on Communication and Economic Development", in D. Lerner and W. Schramm (ed.), *Communication and Change in the Developing Countries*, (Honolulu, East-West Centre Press, 1967), pp. 94-95; V.R. Gaikwad, *Small Farmers: State Policy and Programme Implementation*, (Hyderabad, National Institute of Community Development, 1971), pp. 64-67; V.R. Gaikwad, et. al., *Opinion Leaders and Communication in Indian Villages* (1972), pp. 142-147; *Rural Social Structure and Communication in an Indian Village* (1973), pp. 113-125 (both from Ahmedabad: Indian Institute of Management).

and arrogance and lack of sensitivity and empathy while dealing with the weaker and underprivileged section of the population. Unless basic attitudinal changes take place in the functionaries, it would be impossible to achieve the goal of development of the masses.

It is now realized that the administrator has to have a high degree of commitment to programme objectives. It is necessary here to make a distinction between the "political neutrality" and "programme neutrality" of the civil services. When a question on this was raised in a recent conference, T. Swaminathan, the then Cabinet Secretary, observed that "even the Prime Minister had on earlier occasions made observations on the committed civil service. According to her, it did not mean committed civil service to a party or to a personality, since a civil servant has at all times to serve the government in power." According to him, "the important thing was to be committed to the welfare of the common people, who had to be ensured the basic necessities of life."<sup>12</sup>

In the absence of such commitment the basic programme objectives often get distorted and twisted or completely lost sight of by the administrators. Funds are no doubt spent but without achieving the primary goals and objectives of the programmes. This especially happens when the programmes are meant for weaker sections of the population. For example, in a scheme for small farmers, it was found that every year there was a vast gap between the proposed schemes and the schemes actually implemented.<sup>13</sup>

#### IV

#### *A Model Course for Project Management*

In such a context, it is clear that there is an urgent need for complete reorientation of agricultural administration. This could be achieved by developing a series of training programmes for agricultural administrators. To be effective these programmes should cover administrators from all the levels—top, middle, and lower levels. The nature of training given to various categories of functionaries should be according to the nature of task performed at a particular level. It is difficult at this stage to list all the activities in the agriculture

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<sup>12</sup> *Training in Changing Environment: Proceedings of the Fourth Annual Conference on Training*, (New Delhi: Training Division, Development of Personnel, Cabinet Secretariat, 1972), I, p. 16.

<sup>13</sup> V.R. Gaikwad, *Small Farmers: State Policy and Programme Implementation*, Hyderabad, National Institute of Community Development, 1971, pp. 60-61.

sector, work out the management tasks which are to be performed at each level, and suitable managerial and operating systems needed for various organizations. However, broadly speaking, key administrators functioning at central, state and district level, and from national corporations should be covered by appropriate training programmes.

The size of the agricultural sector in the country is huge, and the administrative machinery has to perform complex operations. It is realized that, though massive changes in structure and organization of agricultural administration are urgently needed, it is difficult to introduce such changes at all the levels. For practical purposes one could approach the problem from a different angle. It is possible to divide the overall management system for the agricultural sector into two broad groups—(1) first order management system covering the functionaries at the Planning Commission, agriculture and allied ministries at the Central level, and departments of agriculture at the State level, and (2) the operating systems in these ministries and departments and corporations and the district level operating system. The district level operating system is important because most of the development programmes are executed by this level. Since policies ultimately come out in the shape of discrete projects and programmes, training programmes could be planned to provide managerial skills in planning and implementation of discrete projects and programmes which are sufficiently common for the country as a whole.

To start with a model course for the agricultural project/programme management for various functionaries could be developed on the premise that the district level administration functions as middle level management, and is primarily responsible for the planning and implementation of various schemes. The district administration handles three types of schemes: (1) those sanctioned at the local body level according to functions transferred to local bodies by the State government, (2) special State/Centre schemes transferred to local bodies for implementation, and (3) Centre/State schemes for which services of officers are requisitioned by the government.

The course should focus on a basic core of management concepts, tools, and techniques which are applicable to a relatively wide range of agricultural programmes and projects. The principal focus of the course should be on project/programme planning, implementation, and evaluation. These concerns should be examined in relation to the environment and organizations within which the administration is likely to function, and in relation to the social responsibility of the administrator. Broad framework of such a model course could be as

follows:<sup>14</sup>

1. *National Policy on Agriculture*

National ethos; new directions; concept of social justice and equitable distribution of income.

2. *Agricultural System*

Functional component of agriculture; agricultural practices and technology.

3. *Environment Analysis*

Various dimensions of rural environment; institutional set up at the district level and below; administrative organization and structure at the district level.

4. *Organization Analysis*

Role perception; problems associated with shift in roles; administration and communication skills for development administration; role of attitude and commitments; social and behavioural dimensions in administration of programmes.

5. *Project/Programme Planning*

Elements and techniques of project/programme planning; formulation of objectives and targets; needed inputs for formulation of objectives; feasibility studies.

6. *Project/Programme Implementation*

Organization of physical and financial inputs; procedural aspects of implementation; organization of work and determination of work schedules; problems of inter-agency coordination.

7. *Project/Programme Evaluation*

Need for evaluation exercises; elements of an evaluation

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<sup>14</sup> A course based on this model was developed by the Centre for Management in Agriculture, Indian Institute of Management, Ahmedabad. The course entitled, 'Agricultural Programme Management for IAS Probationers' was conducted from May 14 to 24, 1973 at the Lal Bahadur Shastri National Academy of Administration, Mussoorie, in collaboration with the Academy.

exercise; performance budgeting; costs and benefit analysis; information and control system; organizational needs for evaluation.

### 8. *Techniques*

Exercises on PERT, cost-benefit analysis, and systems analysis.

Based on this model course, two types of training courses could be developed. (1) General management course for general administrators. In this course, teaching material could be drawn from various agricultural and allied subjects, programmes, and projects. The objective of this programme should be two-fold: (a) to expose the participants to management concepts as applied to project management, and (b) to suggest that such concepts are applicable to a variety of programmes and projects. (2) Specific project or programme oriented course for subject matter specialist administrators. Here the objective is to impart management skills required in managing a specific programme or project such as SFDA, Rural Electrification, and Seed Multiplication.

So far we have dealt with the training programmes for the officers from various departments. In India almost all training programmes are elite oriented, *i.e.*, they train only the officer cadre people. Little or no attention is paid to training of supporting secretariat staff of the departments. No officer, however competent he may be, is able to make durable changes in the working system of the department, unless the changes are accepted by the subordinate secretarial staff such as the section officer, the superintendent, U.D.C., and L.D.C. It is a well-known practice that it is the section officer or superintendent who initiates the notings on the file, which goes from him to the under secretary, to the deputy secretary, to the joint secretary to the secretary, and comes back to him again through the same channel. Often, he has the first and last word on the subject under consideration. Being in the department for a long time, he knows all the procedures and precedents, and officers depend on his knowledge and judgement. He is the person who more often than not formulates and designs schemes, prepares the budget estimates, etc. Thus, in the department, the operating system in the real sense of the word, lies in the subordinate secretariat cell. Unless the secretariat staff accepts management techniques, is ready to change its ways of working, and accepts new operational techniques, no changes are possible in the system. A system is efficient to the extent that each unit in the system is efficient. As it exists today in the government, the system is not complete without the

existence of subordinate supporting staff. As such, it is imperative that this sub-system of the government also gets due attention in the training programmes.

## V

### *Research Base for Training Programmes*

Effectiveness of such training courses will depend upon the quality and suitability of the teaching material used in the courses. It will also be necessary to use a variety of educational methods in these courses, such as case method, small group discussions, syndicates and other experimental exercises. The choice of a particular method or technique should depend upon how best it fulfills the specific needs of the given situation in the course. It is felt that a somewhat greater emphasis should be placed on the case method of study and group discussions because a case is a real life situation, written around a decision-making or problem-solving situation. It describes the situation and provides facts, data, and opinions as would be available to the administrators at the time when the decisions had to be made. The intellectual process of identification of relevant issues, analysis of the problem, development of alternatives, and of making recommendations choosing the "best" alternative for implementation is essentially identical with the managerial decision-making process in real life.

It is often not realized that, to be effective, a training programme requires a strong research base, and the research has to be of applied nature. Its objective should be (1) identification of training needs, (2) development of suitable and appropriate teaching materials for the courses, (3) identification of the difficulties faced in the utilization of knowledge and skills learnt through the courses in the actual field situations, and (4) developing methods and ways to minimize these difficulties and resistance to change in organizations.

In the present context, before effective training programmes could be developed, it is necessary to understand:

- (1) What are the major activities which require management training? What are the priority activities and areas within activities?
- (2) What is the nature of training programmes developed so far?

- (3) What is the magnitude of training infrastructure which could impart training in the field of agricultural administration?
- (4) Where does agricultural administration stand today in the use of modern techniques of management?
- (5) What are the management lacuna in the system?
- (6) What are the skills that need to be imparted to administrators to overcome these?

In the wider context, the questions that need to be examined are:

- (1) Can the combined load of regulatory and development functions be carried out by the same functionaries without detriment to either sphere of work?
- (2) What structural and organizational changes, alterations in procedures, and changes in attitudes of officers are required to achieve better coordination in policies, in planning and implementation?
- (3) Is Block a viable unit of administration? If not, on what criteria should new units be evolved?
- (4) What ways and means have to be devised to ensure the selection of only those who have the requisite personality, traits, and aptitudes for development work?
- (5) What are the existing channels of communication in rural areas, and the role and functions of different categories of agents of communication?
- (6) What is the attitude of the people towards government and government programmes?
- (7) What are the "pathologies and dysfunctions of bureaucracy"? What are the values, motivation, and attitudes of civil service entrusted with development tasks? To what extent is the attitude of the civil service ridden with procedural rigidities of law-and-order state, and to what extent can the civil service meet the demands of new development responsibilities?



- (8) How do different administrative deficiencies affect the implementation process? At what level of organization and at what stage of implementation are these most likely to originate and in what form?
- (9) What is the role and function of the Village Level Worker? Is he competent to handle the responsibility of transmission of new knowledge to the rural population?
- (10) What should be the nature of collaboration between the Indian Council of Agricultural Research, agricultural universities, and agricultural administration?
- (11) What should be the nature of education imparted in agricultural universities that would help the developmental administration in agricultural sector?

Major functional problems<sup>15</sup> which the plan of research on modern agricultural administration should cover are:

- (1) Problems pertaining to structure and organizational set-up, recruitment and training; working conditions, unit of administration; delegation and decentralization, role of specialists, and generalists.
- (2) Problem pertaining to the planning process; the levels of planning; felt needs of population; the planning process at various levels; people's participation in planning.
- (3) Problems pertaining to the execution and implementation of programmes; procedural aspects in execution and implementation.
- (4) Problems pertaining to administrative coordination and interaction; division of work responsibility; organizational arrangements and methods for achieving inter-agency coordination.
- (5) Problems pertaining to democratic decentralization; role and functions of non-officials, involvement of non-officials

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<sup>15</sup> For further details on functional problems, see V.R. Gaikwad, "A Survey of Research Work done in the field of Administration of Development Programmes in Agriculture and Community Development". Paper under publication with Indian Council for Social Science Research.

at the planning and implementation level.

- (6) Problems pertaining to communication between the rural population and administration; outlook, aspiration, and motivation of rural people; people's reactions to programmes; channels of communication; administration of extension programmes.
- (7) Problems pertaining to morale and motivation of civil servants; officers' perception of rural people; job satisfaction; commitment to programmes and policies; rewards and punishment.
- (8) Problems pertaining to programme evaluation; evaluation techniques; methods and criteria employed; information and control system.

Research in these functional problems has to be carried out so that meaningful material for training programmes could be developed. Without such efforts, training programmes will be sterile and ineffective.

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# TRAINING FOR INDOOR STAFF\* : AN INQUIRY INTO THE NEEDS AND ATTITUDES†

G. Haragopal and K. Murali Manohar

TRAINING has come to be universally accepted as a vital input to improve the output of administration both qualitatively and quantitatively. "Training is the function of helping others to acquire and apply knowledge, skills, abilities and attitudes which they do not now possess but which are needed by the organization of which they are a part. It is one of management's most important means of achieving objectives."<sup>1</sup> It is viewed "as an investment in human resources".<sup>2</sup> This investment has the potentialities of transforming the group of human beings, who by accident come together to accomplish common goals of their organization, into a very skilful body. It can successfully bring about certain changes in the outlook and attitudes of employees, thereby making the group, capable of rendering the service more effectively and efficiently, resulting in an increase in the general level of satisfaction of the people. In fact, training is considered as a substitute for change,<sup>3</sup> and a key to national development.<sup>4</sup> It is a low cost, high

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\*The authors preferred to use the term 'indoor staff' to ministerial staff or clerical staff. This staff is generally confined to the desk and spend all the time within the four walls of the office. The term 'indoor staff' conveys this meaning and the nature of work more effectively than the other two terms which are in official and popular usage.

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<sup>1</sup> David S. Brown, "Strategies and Tactics of Public Administration; Technical Assistance: 1945-63" in John D. Montgomery and William J. Siffirn (Ed.) *Approaches to Development, Politics, Administration and Change*, MacGraw Hill Company, New York, 1966, p. 212.

<sup>2</sup> ARC, *Report on Personnel Administration*, Government of India Publication, New Delhi, 1969, p. 62.

<sup>3</sup> Haridwar Rai and Sakendra Prasad Singh, *Indian Bureaucracy: A Case for Representativeness*, IJPA, Jan.-March, 1973, p. 15.

<sup>4</sup> Lynton K. Caldwell, *Improving the Public Service Through Training*, Agency for International Development, Washington 25, D. C. 1962, p. 3.

productivity programme, extremely significant for the speedy socio-economic development of the country.<sup>5</sup>

The importance of and the need for training is progressively realised all over the world. Well-developed training programmes are necessitated in view of; firstly, the "accelerative thrust of science and technology"<sup>6</sup>; secondly, quantitative expansion of the workload of contemporary government; thirdly, the increasing complexity of the problems the civil service is encountering today; fourthly, "the rapidly rising tempo of political consciousness among the people"<sup>7</sup>; fifthly, popular discontent with the existing state of affairs<sup>8</sup>; sixthly, the dependence of national stability upon the ability of government to satisfy at least a minimum of popular needs and expectations<sup>9</sup>; and lastly, an urgent need for a radical change in the attitude of the government employees. All these needs can be fulfilled only when the "tasks of the government are not entrusted to the first available supply of willing hands but to a carefully recruited body of trained manpower".<sup>10</sup>

In spite of wide agreement that training is 'an integral aspect of the administration of modern government', it continues to be neglected all over the world in general<sup>11</sup>, and in India in particular.<sup>12</sup> In almost all the developing countries, it is observed, that in the improvement of public administration 'the greatest single obstacle to progress is the shortage of trained men and women'.<sup>13</sup> In India, it appears, that 'the Government has yet to develop a long term commitment to training as a concept of personnel development'. "Training is not yet regarded as a

<sup>5</sup> M. V. Mathur's comments during the Fourth Annual Conference on *Training in the Changing Environment*, April 20-21, 1972, Proceedings, Vol. 1, Training Division, Department of Personnel, Cabinet Secretariat, New Delhi, May 1972, p. 54.

<sup>6</sup> Alvin Toffler very successfully portrayed the shocking accelerative thrust of science and technology in the first chapter on the 'Death of Permanence'. See, 'Future Shock', Bantam Books, 1970.

<sup>7</sup> Fritz Morstein Marx, 'Bureaucracy and Political Development', op. cit., p. 82.

<sup>8</sup> *Improving the Public Service Through Training*, op. cit., p. 4.

<sup>9</sup> *Ibid.*

<sup>10</sup> ARC, *Report on Personnel Administration*, op. cit., p. 62.

<sup>11</sup> United Nations 'Hand Book of Training in the Public Services', New York, 1966, p. 2; and 'Improving the Public Service Through Training,' op. cit., p. 4.

<sup>12</sup> Appendix XIV, Report of the Study Team on "Recruitment, Selection, UPSC/State Public Service Commissions and Training", ARC, New Delhi, 1967. In 1965-66 excluding Railways and Defence total expenditure on wages and salaries of central and state government was Rs. 783 crores, whereas an amount of Rs. 3 crores was spent on training which constitutes 0.4 per cent of the salary bill.

<sup>13</sup> *A Hand Book of Public Administration: Current Concepts and Practices* with special reference to developing countries (United Nations Publications, sales No. 61.II.H.2), 1961, p. 7.

part of long-range planning of public personnel. This, more than anything else, constitutes its worst weakness."<sup>14</sup>

In India, however, it has to be recognised that the training facilities for the top level civil service are far greater than for the lower levels. The top level is also thought to be "reasonably endowed with first class administrative talent".<sup>15</sup> Nevertheless, there is a widely shared view that training programmes evolved for this level are not carefully tailored to suit the needs of development administration.<sup>16</sup> The facilities for the middle level are awfully inadequate.<sup>17</sup> To the lower levels, which is the main focus of attention of this article, they are negligible, if not little.<sup>18</sup>

According to the Third Pay Commission, the total strength of employees both at the centre and the states, is 70 lakhs (30 lakhs, centre and 40 lakhs, states) as on 31st March, 1968.<sup>19</sup> Of these employees about 80 per cent are untrained. This 80 per cent mostly includes class III and class IV employees of the central as well as the state governments.<sup>20</sup> The ARC Report on Personnel Administration pointed out that class III and class IV employees constituted about 98 per cent of the Central Government personnel. It has been roughly estimated that about 70 per cent of the class III and 90 per cent of class IV personnel are at present untrained.<sup>21</sup> In fact, very little thought has so far been given to this problem. It appears that it is not recognised by the Government that "every employee who has not been through a minimum period of formal training represents a drag on the efficiency of government as a whole".<sup>22</sup> And

<sup>14</sup> S. R. Maheshwari, *Training in Public Administration in India*, IJPA, Oct.-Dec. 1971, p. 631.

<sup>15</sup> Joseph La Palombara, *Bureaucracy and Political Development*, Princeton University Press, 1963, p. 17.

<sup>16</sup> See V. A. Pai Panandiker, *Personnel System for Development Administration*, Popular Prakashan, Bombay, 1966, p. 160. R. Dwaraka Das, *Role of Higher Civil Service in India*, Popular Book Depot, Bombay, 1958, p. 24, and also see, G. Haragopal and Sofi Ali, *Equipping the Civil Servant for Challenges of Development Administration*, Journal of the National Academy of Administration, Jan.-March 1971, pp. 57-64.

<sup>17</sup> S. K. Chand, *Training of State Administrative Officers in India* in Conference on Training; Report of the Proceedings, Feb. 24-25, 1969, published by IJPA, New Delhi, 1969, p. 86.

<sup>18</sup> S. R. Maheshwari, *Training in Public Administration in India*, op. cit., p. 630; E. H. Valson, *Development Bureaucracy: A Tentative Model*, IJPA, Jan.-March 1972, p. 45 and see 'Identification of Training Needs' in Conference on Training, IJPA, op. cit., p. 63-64.

<sup>19</sup> News item's in 'The Statesman', 10th September, 1973.

<sup>20</sup> Conference on Training, IJPA, op. cit., pp. 64-66.

<sup>21</sup> ARC, *Report on Personnel Administration*, op. cit., p. 77.

<sup>22</sup> ARC, *Study Team Report on Recruitment, Selection, UPSC/PSCs, Training*, op. cit., p. 42.

this gross negligence of training is not only detrimental but disastrous to sound administration.

"High competence in the small group of top public officials is necessary to the effective planning and direction of governmental activities, but it alone is not enough to insure effective administration".<sup>23</sup> It needs to be examined as to how far the administrative leadership is capable of stimulating the various participants to rise to the occasion if they are wanting in efficiency. Possibly, a group of human beings headed by an inefficient leader is as good or as bad as an inefficient group headed by an efficient leader. "Where competence is lacking at lower organizational levels, a discouraging burden of overwork and frustration is thrust upon higher level administrations. Ultimately, unless lower level performance can be materially improved, higher level performance will be ineffectual, and much of the training directed toward this level will be lost."<sup>24</sup> "Obtaining quick results become very difficult if not impossible, when only a handful of people are trained and when thousands are untrained."<sup>25</sup> Instead of being obsessed with the training of civil servants, more attention should be given to the training of class III officials who are in direct contact with the masses and are responsible for making or marring the image of the government through their actions.

The lower levels play a vital role in gathering the information for policy formulation and 'render great assistance in implementing policies and programmes in the field'. Many of them, at times, have to take decisions on matters which, though not of major importance, none-the-less affect the citizen in his daily life.<sup>26</sup> This role cannot be fulfilled efficiently unless the ready cooperation and active involvement of the lower level functionaries is ensured. In fact, "the basic managerial problem today is that of securing the worker's participation".<sup>27</sup> The importance of training should be assessed in this context and it is erroneous to think that these levels can function without any training.

It is true that the lower levels deal with the routine work. But it is "this zone of routine administration, which, however dull it might be, makes or mars the clients' happiness no less than the morale of the serving civil servants and ultimately; sets the tone of public

<sup>23</sup> *Improving the Public Service Through Training*, op. cit., p. 12.

<sup>24</sup> *Ibid.*

<sup>25</sup> David S. Brown, *Approaches to Development, Politics, Administration and Change*, op. cit., p. 213.

<sup>26</sup> ARC, *Report on Personnel Administration*, op. cit., p. 77.

<sup>27</sup> Vishnu Sahay, *What Does it Mean*, Seminar, 168, 8th August, 1973.

administration.<sup>28</sup> Moreover, 'when the daily chores are not well managed, the newer tasks are bound to suffer neglect. Routine sets attitude to work and people, for it disciplines the mind'.<sup>29</sup> Further, bringing about effective changes in the routine through determined efforts is a practical possibility and not a theoretical probability. The efficiency level of administration can be improved with remarkable speed in a perceptible way provided the levels which deal with the routine work are made sufficiently skilful.

The lower levels provide contacting points between the administration and the citizen. In fact, all the plans and programmes of the Government reach the 'common man' through these people. Therefore, the public image of administration, to a large extent, is shaped by the behaviour of those who work at these levels. In countries with colonial background the problem of public relations has assumed very serious dimensions, "with the unhappy consequence that the administrative system of the country does not, and cannot, serve the newly awakened hopes and aspirations of the people".<sup>30</sup> The slow pace of work and bad handling of public seem to be a dominant propensity in Indian administration. The ARC also pointed out the need to develop a proper attitude in the employees towards the public.<sup>31</sup> Courtesy, speed and consideration in dealing with the people are all necessary. The administration has to be run by persons who have genuine compassion and concern for those for whose benefit they are being paid to work. In fact, on the ability of the government employees to understand the pressures, priorities, problems and hopes of the people they deal with, the image of the government depends and training should take care of this.

In India, as is well known, large quantitative expansion of educational institutions in the post-independence period has resulted in the casualty of quality of education.<sup>32</sup> As a corollary, the students who are coming out from these schools and colleges are not of reasonable standard. Added to it, the system of education that we have evolved seems to be more a luxury than a necessity. For the education that is being imparted does not have much relevance to the needs of the society. These deficiencies should be compensated by a well-designed training

<sup>28</sup> S. R. Maheshwari, *The Administrative Reforms Commission*, Lakshminarayan Agarwal, Agra, 1972, p. 156.

<sup>29</sup> *Ibid.*

<sup>30</sup> *Improving the Public Service Through Training*, op. cit., p. 12.

<sup>31</sup> ARC, *Report on Personnel Administration*, op. cit., p. 77.

<sup>32</sup> Susan Verghese, *Education, Modernization and Alienation—A Study of Their Relationship in the Andhra University Students*, Indian Journal of Social Sciences, Hyderabad, May-Aug., 1973, p. 172.

programme. Otherwise, the quality of administration is bound to further deteriorate leading to undesirable consequences.

The dawn of Independence had thrust innumerable fresh responsibilities on the State. The commitment of the constitution to a socialistic pattern of society and government's decision to achieve the objective through planned development was altogether a bold experiment. The present day government has raised many hopes among the people. They expect rapid improvement in their standards of living, a more equitable distribution of the existing wealth, greater social justice and equality of opportunity. In evolving the welfare State, a 20th century concept, a large part of the burden fell on the civil service which in developing countries was not quite equipped to carry it. There was acute shortage of qualified and trained personnel, in every sphere. As far back as 1952, Gopalaswamy Ayyangar Report pointed out that "an unduly large and rapid increase in the workload brought about an unduly large and rapid increase in the demand for administrative and clerical services."<sup>33</sup> This unprecedented expansion, according to the Report, "resulted in complete breakdown of staffing system at every level; there was a serious dilution of the quality of the staff." No extra efforts were made to meet this situation.

Government cannot realise its dreams unless the men and women working at all the levels of organization are efficient. And to improve the efficiency level of employees, a crucial step is a proper assessment of training needs and its aims. In fact, people in the topmost positions in our country have emphasised the need for training of the lower levels.<sup>34</sup> One of the important recommendations of the conference on training held at the Indian Institute of Public Administration was that all members of class III staff should be exposed to institutional training.<sup>35</sup> Many of the study teams of Administrative Reforms Commission referred to the need for training in their reports. However, there does not seem to be any integrated approach nor an attempt to assess the magnitude of the problem in its totality. The Administrative Reforms Commission did not sufficiently probe into the problems of training in general, especially the training of the lower levels. They recommended that a review should be made of the existing facilities for training available for class III and class IV staff and of the actual training needs<sup>36</sup>.

<sup>33</sup>*The Machinery of Government: Improvement of Efficiency 1952*. The summary of the Report is found in S. R. Maheshwari's *The Evolution of Indian Administration*, Lakshminarayan Agarwal, Agra, 1970, p. 22.

<sup>34</sup> Smt. Indira Gandhi in her presidential address at IIPA stressed the need for training to the lower levels, IIPA, Oct.-Dec. 1971, p. 580.

<sup>35</sup> *Conference on Training*, op. cit.

<sup>36</sup> ARC, *Report on Personnel Administration*, op. cit.



The division for Public Administration of the United Nations has also drawn the attention of the governments to this problem and suggested that a thorough study should be made of all aspects of training in the public services.<sup>37</sup>

## II

The present study proposes to enquire into the training needs, existing facilities and the employees' attitude towards training programmes. It deals with the training problems of indoor staff working at the lower levels at the district headquarters. The study excludes the training problems of the field staff (outdoor staff), which requires an independent study by itself. However, the problems of the field staff, to a large extent, are different from those of the indoor staff. Unlike the field staff, which is provided with some training, the training of indoor staff is largely neglected. In addition to it, it is difficult to do justice to the total problem owing to its magnitude and the limitations of time and space.

The place of the district as a unit of administration in the Indian administrative set-up is too obvious to need any emphasis. The employees at the district headquarters are engaged broadly in two types of activities: one, they gather the information for the purposes of policy formulation and the other, they are responsible for implementing the policies of the government. The indoor staff at the district level play a vital role in both these processes. However, it should be mentioned that their participation in policy formulation is very indirect, while their participation is more direct in the process of implementation. It is, therefore, accurate to state that the study focusses its attention on some important aspects of training of one of the vital wings of line agency in the broad sense of the term.

The study assesses the training needs of the indoor staff against the background of four important factors:

- (i) It attempts to find out the interest of the employees in the nature of their work to assess their motivation.
- (ii) The employees' views about the relevance of their previous education are analysed to assess the gap between the education that is imparted and the requirements of the employee.
- (iii) It investigates the perceptual gaps by assessing the awareness of the employees about the goals of their department and analysing their role perception.

<sup>37</sup> United Nations, *Hand Book of Training*, op. cit.

- (iv) It explores the point of view of the employees about public relations which are supposed to be rough and not at all cordial.

The study also reviews the existing facilities and evaluates the employees' views about the efficacy of the existing training programmes. It also probes into the attitude of the employee towards the need for training to him personally and his belief in training as a technique to improve the efficiency of the employees.

For this study, a purposive sample has been drawn from the employees of a district on the basis of the random sampling method. The district selected for this purpose is moderately developed and is situated in the Telangana region of Andhra Pradesh. The data is collected with the help of a structured questionnaire. The universe of the study includes the employees of the central, state, local governments, and of public sector undertakings of the state and the central governments. Every effort has been made to see that all the departments located at the district headquarters get a fair representation in the sample.

TABLE 1  
SAMPLE DISTRIBUTION

<i>Government</i>		<i>No. of respondents</i>	<i>Percentage</i>
Central		50	23.4
State			
(a) Development Departments	30	110	50.8
(b) Welfare Departments	30		
(c) Regulatory Departments	30		
(d) Others	20		
Local Government		35	16.4
Public Enterprises		20	9.4
Total		215	100

TABLE 1a

## SERVICE BACKGROUND OF THE RESPONDENTS

<i>Service in No. of years</i>	<i>No. of respondents</i>	<i>Percentage</i>
1—5	70	32.6
6—10	69	31.8
11—15	41	18.8
16—20	16	7.7
21 and above	19	9.1
Total	215	100

TABLE 1b

## AGE AND EDUCATIONAL BACKGROUND OF THE RESPONDENTS

<i>Age</i>	<i>Matri- culates</i>	<i>Per centage</i>	<i>Inter- mediates</i>	<i>Per centage</i>	<i>Gradu- ates</i>	<i>Per- centage</i>	<i>To- tal</i>	<i>Per- centage</i>
20—25	8	3.7	13	6.0	16	7.4	37	17.1
26—30	22	10.3	27	12.7	36	16.9	85	39.9
31—40	35	16.3	8	3.7	28	13.3	71	33.3
41—55	13	6.0	7	3.2	2	0.5	22	9.7
Total	78	36.3	55	25.6	82	38.1	215	100

Tables 1, 1a and 1b describe the nature of the sample. Table 1 describes the sample distribution. One-fourth of the respondents belong to the central government; half of them are state government employees and the rest of them are from local government and public sector undertakings. The Central Government departments include Railways, Posts and Telegraphs, Central Excise, and Income Tax. The State Government departments include practically all the state departments

at the district headquarters. An attempt has been made to give equal representation to the development departments such as Agriculture, Animal Husbandry, Cooperation, Public Works Department, Industries; welfare departments like Education, Health, Social Welfare; and regulatory departments which include Revenue, Police, Excise, Treasuries, etc. The other departments like Tourism, Information and Public Relations, Forests etc., however, are not ignored. The local Government respondents belong to Zilla Parishad, Panchayat Samiti and Municipality. The sample for the public sector undertakings is drawn from two central undertakings, *viz.*, Life Insurance Corporation of India and the Food Corporation of India, two state undertakings *viz.*, The Andhra Pradesh State Road Transport Corporation and The Andhra Pradesh State Electricity Board.

Table 1a shows the total service put in by the employees. One-third of the respondents have put in 1-5 years of service while another one-third have put in 6-10 years of service. One-fifth of the respondents belong to 11-15 years of service group, 7 per cent are from 16-20 years of service group. The sample also includes 9 per cent of the respondents who have put in more than 20 years of service.

Table 1b deals with the age and educational background of the respondents. Out of the total 36.3 per cent of the respondents are matriculates while 25.6 per cent of the respondents possess intermediate qualification (Intermediate for the purposes of convenience has been used for courses which includes the old intermediate, the P.U.C., and also those who have completed one or two years of their graduation). The sample also includes 38.1 per cent of graduates.

Out of the total 17.1 per cent of the respondents belong to the age group of 20-25 years, 39.9 per cent to 26-30 years, 33.3 per cent to 31-40 years, and about 9.7 per cent to 41-55 age group.

Thus the universe of the study embraces practically the employees belonging to all service and age groups and possessing different academic qualifications. Therefore, it can reasonably be assumed that the analysis of this article reflects all the shades of opinion.

Tables 2, 2a and 2b deal with employees' interest in the present job. For this purpose, to start with, they were asked whether they had worked anywhere else earlier before joining the present job. Only 35.3 per cent of the employees worked in some other job, while 64.7 per cent joined the present job directly. Those employees who worked in some other job were asked to give the reasons for leaving

the earlier job, out of the total 59.2 per cent of them said they were in a temporary job and they were retrenched; 18 per cent felt that the present job offered better prospects, 6.5 per cent said that their earlier jobs were in non-governmental service, 7.9 per cent said they were allotted to this job by the public service commission, 4.0 per cent gave up the previous job because the present place of work was nearer to their native village.

TABLE 2  
PREVIOUS EMPLOYMENT

<i>Worked earlier</i>	<i>No. of respondents</i>	<i>Percentage</i>
Yes	76	35.3
No	139	64.7
Total	215	100

TABLE 2a  
REASONS FOR LEAVING THE EARLIER JOB

<i>Reasons</i>	<i>No. of respondents</i>	<i>Percentage</i>
Retrenchment	45	59.2
Better prospects	14	18.4
Non-governmental service	5	6.5
Allotted to this job by P.S.C.	6	7.9
Nearer to my native place	3	4.0
Any other	3	4.0
Total	76	100

TABLE 2b

## REASONS FOR JOINING THE PRESENT JOB

<i>Reasons</i>	<i>No. of res-pondents</i>	<i>Percentage</i>
No other alternative	45	20.9
For the sake of livelihood	75	35.1
This job offers better prospects	40	18.6
Allotted to this job by P.S.C.	20	9.3
Interested in this job	15	6.9
Nearer to my village	5	2.3
Any other	15	6.9
Total	215	100

All the 215 respondents were asked the reasons for joining the present job. Out of the total 20.9 per cent said they had no other alternative; 35.1 per cent said they joined the job for the sake of livelihood; 18.6 per cent held that the present job offered better prospects; 9.3 per cent said they were allotted to this job by the public service commission; 2.3 per cent said the present place of work was nearer to their native village; and 6.9 per cent gave other reasons like lack of awareness of opportunities, that their relatives were working in the department, etc.; only 6.9 per cent said that they joined the present job because they liked the nature of the work.

This analysis reveals that an overwhelming number of respondents did not join the job out of any interest in the nature of the work but because of many other compulsions. Lack of interest in the job is not a desirable symptom; it would be very much rewarding if the reasons for this lack of interest are investigated. Viewed in this context the need for a well designed training to engender interest in the employee and stimulate his active participation in the administrative process becomes inevitable, if not indispensable.

TABLE 3

## RELEVANCE OF HIS PREVIOUS EDUCATION

<i>Qualifications</i>	<i>Relevant</i>	<i>Per-centage</i>	<i>Not relevant</i>	<i>Per-centage</i>	<i>Total</i>
Matriculation	53	25.0	25	11.6	78
Intermediate	30	13.8	25	11.6	55
Graduation	35	16.2	47	21.8	82
Total	118	55.0	97	45.0	215

The second factor analysed was the opinion of the employees about the relevance of their previous education. Out of the total 215 respondents 55 per cent expressed the view that their education was relevant while 45 per cent held it was not relevant. It has been found that majority of the graduate respondents, half of the employees with intermediate qualification and one-third of the matriculates held that their education was not relevant. These responses led to the conclusion that the respondents felt that they were over-qualified. This conclusion is warranted because of the reason that the greater the education, the stronger the feeling that their education was not relevant.

However, in either case, whether the employee feels that he was over-qualified or he thinks he was not adequately equipped by his previous education to carry on the tasks he was entrusted with, the need for training should be accepted. In the former case, it is necessary to dispel from the employee's mind that he was not doing an important job; in the latter case, it is necessary to equip him with the necessary skills to carry on his work with more efficiency.

Further investigation into the causes for the divergent views among the respondents possessing the same academic qualification would be very much useful for evolving the training programmes. The reasons for this division of opinions could be: because of varied nature of their job or, perhaps, some of the respondents were acutely conscious of their limitations and the requirements of their job.

TABLE 4

## THE RESPONDENT'S AWARENESS OF HIS DEPARTMENTAL GOALS\*

<i>Awareness of the goals</i>	<i>No. of respondents</i>	<i>Percentage</i>
Aware of the goals	90	41.9
Partially aware of the goals	106	48.8
Not aware of the goals	19	9.3
Total	215	100

\*The actual question reads, "What is the main purpose of your department?"

TABLE 5

## THE RESPONDENT'S PERCEPTION OF HIS ROLE IN RELATION TO THE ULTIMATE GOALS OF HIS DEPARTMENT\*

<i>Perception of his role</i>	<i>No. of respondents</i>	<i>Percentage</i>
Complete perception	20	9.3
Partial perception	83	38.6
No perception	73	33.7
Not answered	39	18.4
Total	215	100

\*The actual question reads, "Will you please explain how your work is related to the ultimate goal of your department?"

The third factor analysed in Tables 4 and 5 deals with the respondent's perception of his departmental goals and his role in relation to the ultimate goals of the department. Here the reader should be cautioned that for these two tables we administered an open-ended question, and the responses were interpreted and classified into "Complete perception", "Partial perception", and "No perception" categories. For instance, the goal of the police department is maintenance of law and order. All those respondents who said that the goal of the



department was law and order were classified under "complete perception" category, while those who said 'traffic control', 'catching the thieves', etc. were classified under 'partial perception' category and those who could not give either of these answers were put under 'no perception' category. A similar method is employed in the case of all the other responses. However, it has to be pointed out that this method introduces an element of arbitrary judgement. But we had to employ this method for want of a better one. In the case of Table 5 also the same method has been employed: Perhaps, the limitation of this question was that some of the respondents were not able to grasp it fully well. Therefore, this limitation should be borne in mind while going through the analysis.

Table 4 indicates that 41.9 per cent of the employees were aware of their departmental goals; 48.8 per cent were partially aware of the goals while 9.3 per cent were not aware of the goals. Although the employee's perception of the departmental goals does not seem to be quite disappointing, their role perception seems to be thoroughly inadequate. Table 5 shows that only 9.3 per cent of the employees had full grasp of their role in the overall administration of their department, while 38.6 per cent had a vague view of it. However, more than half of the employees (52%) did not know how their work was related to the ultimate goals of their department. There were certain respondents who said that their work was not related to the goals of their department. This lack of perception on the part of employees is not at all conducive for healthy and sound administration. The need for clear perception of roles and goals cannot be over emphasised. This is obviously the result of lack of training of the employees.

TABLE 6

## CONTACT WITH THE PUBLIC

<i>Responses</i>	<i>No. of respondents</i>	<i>Percentage</i>
Deal directly with the public	90	41.9
Do not deal directly with the public	125	58.1
Total	215	100

TABLE 6a

## BEHAVIOUR OF THE PUBLIC

<i>Responses</i>	<i>No. of respondents</i>	<i>Percentage</i>
Pleasant	57	63.0
Irritating	33	37.0
Total	90	100

The fourth factor analysed to assess the need for training is public relations which is supposed to be a very much neglected aspect of development administration. For this purpose, first we tried to know how many employees were in direct contact with the public. Out of the total 215 respondents, 41.9 per cent were in direct contact while 58.1 per cent did not have any contacts with the public. Those who had direct contacts with the public were asked about the behaviour of the public. Out of the total 63 per cent of the respondents held that the behaviour of the public was pleasant, while 37 per cent held that it was irritating. Those respondents who said that public behaviour was irritating were asked to give the reasons for such behaviour. They felt that this public behaviour was because of their rural background; or they were irresponsible; or they did not respect the rules and regulations, or "they were cracks", or they were uneducated, or they did not understand the implications of the work and the office system, etc. When asked how they tackled the public, the answers were varied. They employ tactics by being very patient, giving cool answers, explaining to them the difficulties of the work, giving convincing reasons, by being pleasant to them, etc. However, some employees said that it was difficult to "tackle cracks" and one respondent said "they should be kicked out of the office". The analysis reveals that the relations between the employees and the public are not as horrible as they are generally thought to be. Those employees who thought that the relations were not cordial held the public responsible for the lack of smooth relations.

In another survey<sup>38</sup> conducted by the same authors, the public opinion about the employees behaviour was different. Out of a total of

<sup>38</sup> See, G. Haragopal, K. Murali Manohar, *Public Perception of Strike*, p379.

90 respondents. 67 per cent held that their work was not attended to promptly. The reasons for the delay according to the respondents were: the concerned persons were absent; 'they were busy with some other works'; 'they expect some money'; 'they take shelter under "silly rules"'. The respondents were of the opinion that unless the employees were pleased by some method or other, it was difficult to get the work done. Thus we get two divergent points of view. These analyses indicate that there is much to be done in the area of public relations. The training programme should aim to see that the employee is positively disposed towards the 'common man'.

Against this background, we tried to find out the existing facilities and the employee's attitude toward the need for training and his general belief in training as an instrument for improving the efficiency of administration.

Table 7 attempts a review of the existing training facilities. The survey revealed that only 31.3 per cent of the employees were trained while more than two-third (68.7 %) did not undergo any training. The table further shows that the training facilities are not evenly distributed. The central government employees have better training facilities. This is indicated by the fact that more than half of the central government employees (54 %) were trained, while 27.3 per cent, 17 per cent and 25 per cent were trained in the case of state government, local government and public undertakings respectively.

Even among the central government employees, almost all the employees of the Posts and Telegraphs and most of the employees of the Income Tax Department were trained, while the employees in Railways and Central Excise did not receive any training. From among the state government departments, the only department which was manned with trained staff was Treasuries; and a few employees of Police, Social Welfare, Public Works Department, Education had received training, but the employees in departments of Agriculture, Industries, Animal Husbandry, Health, Cooperation, Revenue, and Tourism did not receive any training. From the local government employees except a fraction of the employees of the Zilla Parishad, none of the employees received any training. From public sector undertakings, only the employees of Life Insurance Corporation were trained while the other undertakings, viz., Food Corporation, Andhra Pradesh Road Transport Corporation or Andhra Pradesh State Electricity Board did not provide any training to their employees.

The study reveals that a large section of employees are left untrained. This supports the conclusions of the Ministry of Labour

TABLE 7  
THE EXISTING TRAINING FACILITIES

	Central		State		Local		Public enterprises		Total
	Actual No.	Percentage	Actual No.	Percentage	Actual No.	Percentage	Actual No.	Percentage	
Trained	27	54	30	27.3	6	17.1	5	25	68
Not trained	23	46	80	72.7	29	82.9	15	75	147
Total	50		110		35		20		215

and Administrative Reforms Commission that a large number of the employees were untrained. Although, it is not correct to say that the training facilities for the lower levels are nil, it should be remembered that a large section of untrained employees are engaged in running the vast and complex administrative machinery.

TABLE 7a  
DURATION OF THE TRAINING

<i>Duration</i>	<i>No. of respondents</i>	<i>Percentage</i>
Below one month	14	20.7
2-3 months	30	44.1
4-6 months	20	29.4
7-11 months	2	2.9
One year and above	2	2.9
Total	68	100

TABLE 7b  
NO. OF TIMES THE TRAINING IS GIVEN

<i>No. of times</i>	<i>No. of respondents</i>	<i>Percentage</i>
Once	56	80.7
Twice	12	19.3
Thrice	Nil	—
Total	68	100

TABLE 7c

TYPE OF THE TRAINING GIVEN TO THE EMPLOYEES (MULTIPLE RESPONSE)

<i>Government</i>	<i>On the job</i>		<i>Departmental</i>		<i>Sent to a training Institute</i>	
	<i>Actual No.</i>	<i>Per-centage</i>	<i>Actual No.</i>	<i>Per-centage</i>	<i>Actual No.</i>	<i>Per-centage</i>
Central	2	3	22	32.3	3	4.4
State	4	6	24	35.3	14	18.2
Local	3	4.4	4	6	Nil	—
Public Undertakings	2	3	5	7.3	2	3
Total	11	16.4	55	80.9	19	25.6

TABLE 7d

USEFULNESS OF THE TRAINING

<i>Response</i>	<i>No. of respondents</i>	<i>Per-centage</i>
Training has been useful	62	91
Training has not been useful	6	9
Total	68	100

In Tables 7a, 7b, 7c, and 7d, an attempt has been made to evaluate the existing training facilities and to know the opinion of the employees about their utility. About the duration of the existing training programmes, two-third of the employees were trained for a period of one to three months while one-third were trained for a duration of three to six months. The study revealed that more than 80 per cent were trained only once.

This shows that there are no periodic training programmes which are a must in view of the fast changing social and political conditions and rapid advancement of knowledge. About the type of training four-fifth of the employees were trained by the departments themselves. Only one-fifth of the employees were sent to separate training institutes for the purposes of training.

About the usefulness of the training, an overwhelming majority thought that the training was useful while a negligible number (9 per cent) thought that it was not useful. Those who said that it was not useful thought that the training was mostly theoretical and should be made need-based.

TABLE 8

UNTRAINED EMPLOYEES' ATTITUDE TOWARDS THE NEED FOR TRAINING

<i>Government</i>	<i>Training is needed</i>		<i>Training is not needed</i>		<i>Total Per-centage</i>	
	<i>Actual</i>	<i>Per-centage</i>	<i>Actual</i>	<i>Per-centage</i>		
Central	22	15	1	0.75	23	15.75
State	57	38.8	23	15.6	80	54.4
Local	20	13.6	9	6.0	29	19.6
Public Undertakings	14	9.5	1	0.75	15	10.25
Total	113	76.9	34	23.1	147	100

In Tables 8, 8a, 8b, and 8c, an attempt has been made to show the attitude of the employees towards the need for training. Out of 147 respondents who were not trained, 76.9 per cent said they needed training, while 23.1 per cent said they were not in need of any training. Further analysis was made to find out this divergent attitude of the employees towards training against their background.

Table 8 indicates that almost all the employees working in the central government and public undertakings expressed their need for

TABLE 8a  
UNTRAINED EMPLOYEES' ATTITUDE TOWARDS THE NEED FOR  
TRAINING (AGAINST SERVICE BACKGROUND)

Response	Service Background										Total
	1-5	%	6-10	%	11-15	%	16-20	%	21 & above	%	
Training is needed	33	84.2	39	75	21	75.9	7	63.7	13	81	113
Training is not needed	7	15.8	13	25	7	24.1	4	36.3	3	19	34
Total	40	100	52	100	28	100	11	100	16	100	147

TABLE 8b  
UNTRAINED EMPLOYEES' ATTITUDE TOWARDS THE NEED FOR  
TRAINING (AGAINST EDUCATIONAL BACKGROUND)

Response	Educational Background						Total
	Matriculates	%	Inter-mediate	%	Gr- duates	%	
Training is needed	36	70	28	79.4	49	81.4	113
Training is not needed	16	30	7	20.6	11	18.6	34
Total	52		35		60		147

TABLE 8c  
UNTRAINED EMPLOYEES' ATTITUDE TOWARDS THE NEED FOR  
TRAINING (AGAINST AGE BACKGROUND)

Response	Age Background								Total
	20-25	%	26-30	%	31-40	%	41-55	%	
Training is needed	16	89	48	77	36	69	13	81.3	113
Training is not needed	2	11	13	23	16	31	3	18.7	34
Total	18		61		52		16		147



training, while 28.8 per cent of the employees of the state government and 31.1 per cent of local government held that they did not need any training.

The other three tables show how the attitude towards training is associated with service, age and educational background. Table 8a reveals more than 75 per cent of the employees who have put in 1-15 years of service expressed the need for training, while from the employees in the 16-20 years of service group, 63.7 per cent expressed the need for training. However, from the employees who have put in more than 21 years of service as big a chunk as 81 per cent expressed the need for training. Therefore, there does not seem to be any significant association between the service and the attitude towards the training.

Table 8b reveals that greater the educational qualification, more intense was the desire to undergo the training. Table 8c indicates that more than 75 per cent of the employees in the age group between 20-30 expressed the need for training, while 31 per cent in the age group of 31-40 felt that they did not need any training. However, 81.3 per cent of the employees belonging to the age group of 41-55 expressed the desire to undergo the training.

These analyses indicate that a majority of the employees in all age, service, and educational group expressed the need for training. However, some of the employees who were middle-aged and had put in 16-20 years of service did not feel the need for training. But it is quite significant to observe that most of the respondents who had put in more than 21 years of service and crossed the age of 50 and those with higher qualifications expressed their preparedness to undergo training to improve their efficiency.

Here, it should be pointed out that we could not find any significant association between the attitude towards the training and the age, education, and service.

TABLE 9  
EMPLOYEES' BELIEF IN TRAINING

<i>Response</i>	<i>No. of respondents</i>	<i>Percentage</i>
Training improves the efficiency	197	92.6
Training does not improve the efficiency.	16	7.4
Total	215	100

Table 9 speaks about the belief of the employees in the training as an instrument to improve the efficiency. An overwhelming majority, *i.e.*, 93 per cent thought that training would certainly improve the efficiency, while a negligible number (7.4 %) thought that it would not improve the efficiency.

### III

The study throws light on certain important aspects of training for the indoor staff. The study assumes importance in view of the fact that the lesser the extent of the training received by the lower level employees in an administrative organisation, the lesser the efficiency of the organisation in spite of the top level civil servants' efficiency. The lower levels of administration have to carry the burden of the work and play a very crucial role in our administrative set-up. The necessity for training employees at these levels should also be considered in view of their numerical strength, dilution in the quality of education and their increasing responsibilities and growing contacts with the public.

The study reveals that employees working at the lower levels had entered the job because of various compulsions and not because they were interested in the nature of the work. Although, a majority of the employees (55 %) thought that their education was relevant, a significant number (45 %) were of the view that their education was not relevant. Concerning the perception, although quite a large number of employees were aware of their departmental goals, their level of role perception was awfully low. In the area of public relations, a majority of the employees thought that the relations were pleasant, but not a negligible number held that they were not cordial. To put it precisely, lack of motivation, inadequate skill, and ambivalent role perception seem to be some of the critical factors contributing to the pathology of the rank and file of the Indian administration.

The study indicates that a very large number of employees were engaged in running the complex administrative machinery without the necessary attitudes and skills, for a majority of them had not undergone any formal training.

The existing training facilities, which are too inadequate, are scattered in an uneven manner. This is apparent from the fact that while employees in certain departments were trained in a considerable number, in certain other departments none of them underwent any training.

Those employees who underwent training were trained for a short duration, only once and were not sent to any separate training institute. However, the overwhelming majority of them thought that the training given to them was useful.

About the attitude of the employees towards training, a very large number expressed the need for training and the entire universe thought that training would improve the efficiency level of the employees. This indicates a healthy trend. There is a substantial advantage in the mere posture of veneration for training, for it facilitates a smooth beginning for the training programmes.

It is convincing from the survey that there is a dire necessity to develop a network of training institutions to bring all the employees, who are left untrained, under an umbrella of formal training programmes.

The emphasis of the training programmes should be to motivate the employees, fill the gap created by the educational system, improve the role perception of the employees and develop a proper attitude in them towards the public. In fact, this should be the central theme of any training programme for government employees working particularly at the lower levels.

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## IDENTIFICATION OF TRAINING NEEDS — A GROUP APPROACH

A. P. Saxena

THE importance of training as an instrument and input for personnel development is being increasingly realised. For example, it is more and more being accepted in responsible quarters that training has a crucial positive role to play in improving the overall levels of performance of public personnel. In the recent past, a number of formal agencies have also been created to act as administrative arms for developing the training function. However, frequently, the success of these efforts has hinged on the preparatory exercise of identification of training needs. Several analytical studies of training effort indicate that the identification exercise as an essential pre-requisite is generally not conducted. Yet, there is growing evidence that absence of or inadequate identification of training needs can well make or mar the success of any training effort, as the identification exercise can alone provide a scientific framework for imparting training at various levels in an organization.<sup>1</sup>

In any training population, there is likely to be a diversity of background and experience. In fact, it may even emerge that the individuals in the population may have different training priorities. Lack of identification exercise may invariably lead to unstructured training, including wastage of scarce training resources, and may even pose problems like post-training utilization. It is also worth mentioning that the training needs at the level of individual and the organization have to be distinguished.<sup>2</sup> Frequently, the two may not converge, a situation which is capable of being brought out very clearly by a properly conducted identification exercise. This in a way leads to the question whether the identification exercise should be aimed at the aggregate level of the organization or at the lower plane of individuals. In both

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<sup>1</sup> A.P. Saxena, *The Training Function: Identification and Implementation*, Training Monograph No. 6, Training Division, Government of India, New Delhi, 1970.

<sup>2</sup> I. Dayal, *Management Training in Organizations*, Prentice Hall, New Delhi, 1970.

Also See I. Dayal, *Organizational Development*, Economic & Political Weekly, (1971) Vol. VI, No. 35, Bombay.

the alternatives, the resultant need profile may highlight requirements for entirely different training areas. As a viable approach for identification of training needs a *group exercise* may, it is suggested, yield good results, especially where training has yet to permeate the various levels in an organization.

### *Identifying the Group*

The first step in this approach is to identify potential group (s) for determining training needs. Here the group is conceived as a 'cluster of individuals' in need of training, identified on a pre-determined set of priorities. This clarification is necessary because a number of groups may be identified, each in need of training, which would necessitate an *inter se* group priority. The identification of groups as against individuals has comparative advantages because of serious constraints posed by two major factors, (i) limited training resources, and (ii) lack of prior experience. As far as public personnel are concerned, these factors seriously impede meaningful training plans at individual levels. There is also another related issue of heterogeneity, or lack of homogeneity, in any training population of public personnel. The heterogeneity factor may be 'organizational', 'functional' or even 'role based'. Planning for training in organizations depicting a varying mix of organizational, functional and role 'heterogeneity' can be a difficult task, if attempted at the level of individuals\*. As an alternative, it is suggested, a group may be a better unit for determining training needs, especially in situations where the group can exhibit *functional* or *task* commonality. For public personnel fortunately, there is discernible commonality because of a variety of formal groupings—services or cadres etc.—which distinctly categorise personnel. In this lattice of personnel categorisation, it is easier to locate a number of groups and assign them relative priorities for purposes of determining training needs and developing training plans. However, the group approach can be particularly useful in services/cadres where jobs can be functionally demarcated as forming part of the service span.

As a simple technique, a *experience-age* matrix may be drawn. In this suggested technique, a simple matrix along two axis depicting

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\*The subject of categorization is, however, very complex and it is not possible to stipulate any clear-cut guidelines which would be universally useful. A Study Team on Recruitment, Selection, UPSC/State P.S.Cs. and Training of the Administrative Reforms Commission (June 1967) in addition to presenting a 'Prismatic' model, identified three broad categories: (a) Police and managerial, (b) Middle management and Supervisory, and (c) the Infrastructure. The Administrative Reforms Commission's report on Personnel Administration, has however, broadly categorised three levels at Junior, Middle and Senior. Even here, it would be interesting to note that there are successive levels of responsibility telescoped within one single scale of pay.

*experience* (years of service in a particular job and not total years of service) and *age* is attempted by plotting individuals comprising a training population. As is indicated in the illustrative figure below, each square in the matrix will indicate a cluster of individuals and in this way, the entire target population can be grouped in terms of parameters of *experience* and *age*. In the matrix, *experience* can be plotted in terms of five-year steps and *age* again can be plotted in equivalent steps.

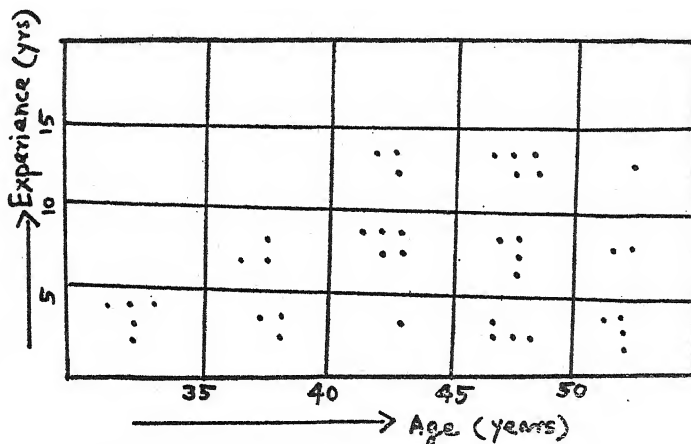


FIGURE 1. ILLUSTRATIVE EXPERIENCE-AGE MATRIX  
(GROUP-SIZE : 40)

The next step after finalising the matrix grouping will be to accord a well-defined *inter se* group priority to the various located groups. For example, as indicated in the figure above, a group of individuals in the age bracket 40-45 with five years' experience in a particular cadre or functional category may be considered comparatively more valuable for training and development as against a group of individuals in the age category 45-50 with corresponding experience in the range 10-15. Alternatively, in another situation, a group of individuals in the age category 35-40 and 10-15 years' experience range may be considered more-promising for training and accorded a higher priority. It may be argued that this group has a potential leadership role and should be groomed through a series of carefully chosen training opportunities. These are purely illustrative explanations as situations may differ, each reflecting the problems and prospects facing a particular service/cadre or category of public personnel.

### *Analysing Group Job Content*

The identification of potential groups arranged in a certain priority rating will have to be followed-up by an analysis of the job content of

the groups. It needs to be carefully noted that the job analysis suggested here is not to be construed merely as a statement of functions *performed* by individuals in a particular group or *perceived to be performed*. The job analysis should be an analytical exercise and may even go beyond the range of functions by considering the *environment* of job performance. In abstract, job performance may indicate *actual* levels of performance as against *expected* levels of performance and thereby portray known *gaps*. An environmental appreciation of job content as well as performance would forcefully reflect the needed input of knowledge, skills, behavioural or attitudinal training at the level of the group, necessary to meet the desired levels of job performance and thus help to reduce the known gaps.

The need to analyse the group job content as outlined above can be reinforced by mentioning number of determining factors. First of all, there is the question of *diversity*. The more diverse the work in an organization, the more effort and attention it needs to achieve effective planning and smooth control. There is also the question of *complexity* of the job being performed and the frequency with which new kinds of problems arise from time to time. Obviously, it will be more difficult to plan, organize and control complex jobs because of the varying input of knowledge, skills or attitudes required to perform effectively. There is also the factor of *volume* which in its sheer dimension may block effective job performance.

A reasonably simple method frequently followed is to ask individuals to complete pre-structured job description questionnaire.<sup>3</sup> The questionnaire can highlight several dimensions of the job arising out of a detailed description of duties, responsibilities and functions. The job description questionnaire can also provide valuable information regarding extent of supervision in the context of goals assigned for control of the work and formulation of programmes generally. There can also be provision for appraisal of job description by the immediate supervisor of the individual followed by the Head of the department in charge of the organization as a whole. This multi-level appreciation as part of the questionnaire design can help to provide a sharp focus for identifying the basic characteristics of the job and the types of training that may be needed from time to time to promote overall better job performance. There is also usually an in-built follow-up provision for revalidation of the job description (as attempted by the individual) by the superiors in order to elicit a uniform appraisal of the job content.

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<sup>3</sup> V. Kumar, *Career Management*, Indian Journal of Public Administration, Vol. XIV, No. 4, Oct.-Dec., 1968.

Analysis of the group job content attempted by any of the methods mentioned would lead to certain pre-eminent dimensions of the job. For example, a particular job may involve extensive public dealing or dealing with a large labour force or even running a big multi-point office. It will be necessary to keep these in view while initiating the next step for establishing training needs of a group job. These dimensions may have an important bearing on the overall environment of job performance. It may even emerge that the environment may be functionally inhibiting job performance—a situation which can be a challenging training task. In some instances, the environment may turn out as an 'external constraint' and may, by common consensus of the group, be excluded as an area for training.

### *Establishing Group Training Needs*

Having analysed the group job content, the next step is to establish the training needs of the group. A well-known approach is to seek a personal history of individuals comprising the group. The personal history will provide relevant, essential background with special emphasis on the experience and training of the individuals. The information collected through the questionnaire will have to be further embellished with personal interview sessions with a representative number from the group. These interviews would attempt to seek a free and frank views in regard to the training needs as visualised by the individuals. The spectrum of needs will have to be appraised in broad areas, e.g., knowledge, skills and attitudes. The interview sessions could be further followed by a series of discussions with superiors and peers of the group members with a view to have the 'other side' of the picture. Broadly, the approach suggested above will yield a fairly agreed profile of the training needs of the group. There would be, however, variations in emphasis inasmuch as a few individuals or their superiors or their peers may either specifically highlight the need for training in a particular field or underplay other fields.

It will now be necessary to re-examine the profile of needs by further classifying them in terms of *felt* needs, *perceived* needs or even *induced* needs in order to ensure that the exercise has been comprehensive. In a few cases, the *felt* needs may be far too dominating and thus suppress the *induced* needs which to an outsider may be more appropriate for the development of the individuals comprising the group. Again, in another situation, the group members may feel the need for training in entirely new areas but about which they may have yet very unclear and undefined understanding. As an illustration, the *felt* needs may indicate training in computerization or design and installation of



E.D.P. systems, but the available expertise and prevailing procedures in a department or organization may not be amenable to early computerization. In these circumstances, this category of *felt* needs may not be very pertinent or urgent for providing training. Conversely, in another set-up a reasonably well planned, mechanised and A.D.P. system may be in operation and the requirement for training in computerization and E.D.P. systems may be identified as an *induced* need. The group may not react very enthusiastically to this requirement but in the interest of its potential role, training in this field even though induced, may be of far greater advantage. The essence of the problem is to reconcile the degree of importance of the various categories of needs *vis-a-vis* the potential role of the group. If this context is adequately appreciated, the categorization of needs mentioned above will appear as a helpful step toward meeting the training needs of the group.

This part of the exercise will, therefore, seek to rationalise the profile of training needs and match it as far as possible with the group job content discussed earlier. Unless this integration is attempted, the effort will not be complimentary and may even be in isolation and exclusion with respect to each other. This has to be emphasized because today in many services/cadres of public personnel, groups of individuals in a demarcated functional area are emerging as crucial determinants for overall performance in a department or organization.

### *Selecting Training Programmes*

Having attempted a statement of training needs, it will be necessary to convert it as far as possible into a programme or a series of programmes. The role of the *trainer* and a *training institution* becomes important at this stage. The trainer as a professional has to perform the task of converting the *needs* into realistically conceived programmes. He has to clearly delineate as far as possible the *objectives* of the training necessary to meet the needs.<sup>4</sup> The task of outlining the objectives is rather a neglected aspect in the training field and this can lead to erroneous training consequences. The outlining of objectives is all the more important because frequently it may not be possible to device a single programme to fully meet the training needs of a group. It may be necessary to conceive a number of programmes which may help achievement of training needs, because custom-made training for reasons of resource and time may not be always forthcoming.

Stipulation of the objectives will also help the trainer to visualise

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<sup>4</sup> A.P. Saxena, *Development of Trainers*, Training Monograph No. 10, Training Division, Government of India, New Delhi, 1971.

the methodology of training needed for the group. For a senior level group, against the background of usual organizational hierarchy, a lecture-discussion approach may not be able to accomplish the training objectives. It may be necessary, and rightly so, to provide greater opportunity for group discussions and allocate sessions to generate greater inter-action among the participants, and between the participants and the faculty. In another situation, it may be necessary to provide a meaningful case study which may induce the group to come out and discuss frankly the various over-tones of a case.<sup>5</sup>

The statement of objectives and the choice of training methodology will also influence the course design and development of programme content in the interest of effective training. A routine structuring of a training programme in terms of a measured dose of, say principles of management, public administration, planning and economics, etc., may not meet the requirements in many situations. The determination of programme content will involve working out a judicious mix of stress on *concepts* and *techniques*. A programme conceived as a purely concept-based course or a purely technique-based course may not meet the training requirements of a group. It may be necessary to evolve a concept-cum-technique-based course outline in order that the group feels reasonably satisfied that its training needs have been to a large extent covered by training.

The role of training institutions at this stage needs to be mentioned. First of all, should, or should not, a training institution be associated with the process of a converting the statement of training needs into training programmes? A view is sometimes taken that, as an external agency, a training institution may not be in the best position to achieve the necessary conversion, and perhaps a group of trainers within or without the organization may be better placed for the task. Another view is that since the programmes have to be eventually conducted by a training institution, an institutional link at the earlier stages can be highly profitable. The latter argument is sometimes unfavourably viewed because of the physical or financial outlays needed to secure assistance from a training institution. In the alternative, another approach could be to search for suitable training programmes out of the courses conducted by various national and state training institutions from time to time. In most cases, comprehensive programme folders are available in advance. With a certain background and insight, a trainer can cull out suitable programmes which will approximate most closely to the training needs identified earlier. On balance, this approach

<sup>5</sup> McLarney, William J., *Management Training—Cases and Principles*, Richard D. Irwin, 1964.

may be helpful in departments or organizations which lack financial support for securing the services of training institutions for developing tailor-made programmes.

### *Programme Viability—Conclusions*

The exercise of identification of training needs at the level of a group and the subsequent design/development or selection of training programmes will be incomplete, unless the suggested training is tested for its overall viability in achieving the objectives arising out of the needs. With the best of intentions and expertise, a training programme for meeting any category of needs may only partially succeed in its purpose. This may be so for a variety of reasons, some of them well beyond the control of a trainer or a training institution. It will, therefore, be necessary to realistically appreciate this aspect. The viability may be tested on several counts. It may include, first of all, the costs involved in the programme for meeting training needs. The number of trainers with pre-specified background needed for training will also be a check point. The background of the trainees, often acting as a limiting factor, will be another aspect meriting careful consideration. The optimum duration of a programme for which the trainees can be conveniently relieved by their respective departments or organizations, as against the effective time needed by the trainers to accomplish the mission, will also have to be considered and in many cases reconciled.

Today, our tools for conducting the viability exercise are somewhat imperfect and involve a range of techniques which have yet to be empirically validated and formalised. Yet the task of testing the programme is an essential ingredient of the identification exercise. According to some authorities, a few selected programmes can be conducted as pilot programmes and the feed back may be used to suitably alter subsequent programmes in respect of their objectives, methodology, content and even duration. In a way, it can be eventually a cyclic process in search for a better product, namely, a programme or a series of programmes which would meet the training needs identified earlier. The role of the trainer as well as the training institution will be undoubtedly critical as they alone can help to smoothen the rough edges of a programme or course and formalise the mould of the needed training input.

In any developing situation and more so in our setting, the need to plan training of public personnel can hardly be over-stressed. Admittedly, this can be best accomplished, if based on proper identification of training needs. Several years back, the outline of the Fourth

Five-Year emphasized the importance of developing training programmes thus:

“Development in each sector of the Fourth Plan has to be supported by intensive programmes of training not only in technical aspects, but also for improving methods of Administration . . . and other specialised institutions in different fields as well as refresher and orientation courses have a vital contribution to make to the process of improving performance under the Plan. For each category of personnel, there should be intensive and continuous programmes for in-service training and arrangements for the necessary follow-up. There are, in addition, five broad areas of training common to several sectors to which a great deal of attention will have to be given during the Fourth Plan.”<sup>6</sup>

In this context, the problem of identification of training needs appears closely linked to the entire process of growth and development.<sup>7</sup> In fact, viewed from any aspect, the problem of identification of training needs appears the key to the entire process of development.

The increasing size of target training population of public personnel also underlines the need for proper identification of training needs. For example, as on 31st March, 1971, the Central Government personnel alone numbered 26.98 lakhs including 54,000 in gazetted ranks. Class I officers numbered 25,000 and the Class IV component totalled nearly 12.58 lakhs.<sup>8</sup> These figures assume still greater significance because training of several classes of public personnel has been more or less neglected. In such a background any assignment of well thought out priorities can only take place after training needs have been scientifically established. There is also the related question of the total period of an individual's career which could be allocated for training. The United Nations *Handbook on Training in the Public Services*<sup>9</sup> some time back, by implication noted that ‘up to 10 per cent of the working career of 30 years could be assigned for training’. In the context of our present available resources for training, this may be a rather high target. Even so, projecting any modest training

<sup>6</sup> *Fourth Five Year Plan*, Planning Commission, Government of India, New Delhi. See also *The Approach Paper to Fifth Plan and the Fifth Five Year Plan* (1973).

<sup>7</sup> A.P. Saxena, *Training in Government—Implications for Growth*, Conference Proceedings—Background Papers, Vol. II, Fifth Annual Training Conference, Training Division, Government of India, New Delhi, April 1973.

<sup>8</sup> *Census of Central Government Employees* (as on 31.3.1971), Director-General of Employment and Training, Ministry of Labour and Employment, New Delhi, January, 1973 (mimeo.)

<sup>9</sup> United Nations, *Handbook of Training in the Public Service*, Department of Economic and Social Affairs, Public Administration Branch, N.Y., 1966.

plan against the number of public personnel imparts a gigantic framework to the entire task of training. Obviously, a major thrust can only be achieved provided training opportunities are well projected and matched against the scale of predetermined, identified training needs. In this important yet complex task, the identification of training needs on a group approach, it is suggested, may yield reasonable results expeditiously, and amenable to meaningful implementation.

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## ADMINISTRATION AND POLITICS IN THE CONTEXT OF PANCHAYATI RAJ

S. N. Puranik

AMONG the various subjects of research in the field of public administration, the relationship between administration and politics has received a good deal of attention of the scholars in the recent past. The trend is visible particularly since the experiment of democratic decentralization or Panchayati Raj has been tried and vigorously carried out in many states in India. Panchayati Raj institutions, whether under the *Rajasthan model* or the *Maharashtra model*, decisively brought administration, representing the policy implementing function and politics, representing the policy formulating function closer to each other in an unprecedented scale and showed, to use Strauss's remark that, "The administration is not a self-contained and self-regulating mechanism but an instrument for the furtherance of specific social interests, and therefore, intimately concerned with the world at large and its problems".<sup>1</sup> Panchayati Raj institutions are now a decade old and it is possible, on the basis of the experience accumulated so far, to point out the implications of the relationship between administration and politics, or in other words, of the relationship between officials and non-officials, on the overall functioning of the local self-government administrative machinery in the rural areas.

### *The Changed Context*

Administration, in a democratic and sovereign state like India, has to remain responsible to the people working through their democratic or representative institutions. In the beginning, popular institutions were confined only to the state and national levels although certain advisory bodies or committees were established at the district and taluka levels. These latter bodies were virtually devoid of powers and hence, the administrative machinery below the state level worked in *relative* isolation of the powerful popular elements at the local level, although it worked all the while for local development. The administrative machinery was more 'structure-oriented' rather than 'situation-oriented'. Democratic decentralization created 'popular and representative'

<sup>1</sup> E. Strauss, *The Ruling Class*, George Allen & Unwin, London, 1961, p. 45.

institutions at different levels below that of the State and the then existing community development machinery in the rural areas was placed at their service.

This was indeed a great advance from the democratic point of view as the bodies which were created were more representative in size and character and also were given more real powers than were given to their predecessors under the community development set-up. It has long been recognised, that most of public policy emerges out of a continuous interaction between the two key processes of politics and administration and secondly, that the successful implementation of the policy depends on how far the political side observes certain restraints in giving free hand to the administrative side. The new set-up of democratic decentralization was to affect both these processes. Fears were expressed that the result would be nothing but deterioration in administrative efficiency and standards.

This relationship became the main concern of the planners as it was to affect all other, major and minor, administrative activities *within the system*. The administrative side consisted of officials—subordinates and superiors—drawn from different development departments and the popular or political side consisted of the non-officials elected directly or indirectly by the people to form Taluka Panchayat Samitis and Zilla Parishads. Panchayati Raj, thus, *rationalised* the relationship between administration and politics all over the country by creating additional democratic layers parallel to the then existing administrative layers below the state level, although there was still large scope left for further rationalization. It was because of the interdependence of politics and administration and also because of the role of human beings in both the fields that the problem of relationship became of central importance.

Involved therein was also the matter of autonomy of both the sides. The necessity of an effective administration and a coherent political mobilization demanded the maintenance of the autonomy of both the sides and harmonising their relations with one another in such a way that would not harm the system.<sup>2</sup> The problem of 'political interference' or of the relations between secretaries and ministers had already come to the fore at central and state levels. The relations between Deputy Ministers and Permanent Secretaries were frequently strained because the former were often young politicians and were never

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<sup>2</sup> S. Kothari, & R. Roy, *Relations Between Politicians and Administrators at the District Level*, Indian Institute of Public Administration and the Centre of Applied Politics, New Delhi, 1969, p. 16.

given the opportunity to understand that as political neophytes they would need the help and guidance of the senior officials in acquiring a grasp of the intricacies of administration.<sup>3</sup> The same was likely to happen at the lower levels, *i.e.*, in the Panchayati Raj bodies and fears were expressed that the autonomy of each side—particularly of the administrative side—would be violated by the other.

All the fears were in the beginning natural because both the sides had very little in common between them except perhaps their nationality which was Indian. Otherwise, they differed in their educational and intellectual level, administrative experience, etc. While the administrative side lacked in vigour and initiative, the political side lacked in education and administrative experience. If one was procedural, steady, impersonal, coercive, educated and urbanised, the other was impatient, eager, partisan, persuasive, ignorant and illiterate.<sup>4</sup>

It was indeed a challenge to the administration since the Panchayati Raj altogether changed the very context or the environment in which it worked previously. Firstly, administration was made subordinate to the newly formulated democratic bodies by devolving certain important deliberative and financial powers upon the latter which meant an erosion in the powers previously enjoyed by the administration. Secondly, it was now necessary for the administrative side to tone down its voice so as to get along well with its new unequal partner in the task of goal achievement. The officials were faced with increasing challenge from the political leaders who aspired to decide basic questions confronting the policy and agreed to assign only an instrumental role to administrators. This was essentially a struggle for power.<sup>5</sup>

### *An Empirical Study*

The present author has had an opportunity to study the relationship between officials and non-officials in the Taluka Panchayat Samiti at Aurangabad in Maharashtra in the year 1967. The Panchayati Raj then had six years of existence in the State of Maharashtra and still the study revealed many important matters which then had a bearing on the general functioning of administration and which have also importance in the present context.

The official side consisted of three layers, namely, the Block Development Officer (or BDO) who was a 'generalist' and a coordinating officer and who was also made an *ex officio* Secretary to the Taluka

<sup>3</sup> A. Chanda, *Indian Administration*, George Allen & Unwin Ltd., London (2nd Ed.), 1967, p. 101.

<sup>4</sup> Z. U. Khan, "Panchayati Raj and Democracy", *Panchayati Raj, Planning and Democracy* (ed.), Asia Publishing House, Bombay. New York, 1969, p. 271.

<sup>5</sup> Kothari and Roy, *op. cit.*, p. 170.



Panchayat Samiti, the Extension Officers (EO) who were subject matter 'specialists' drawn from different development departments and placed under the administrative (and not the *technical*) control of the BDO, and the Village Level Workers (VLW) who were the line functionaries actually working in the villages and who were often described as 'friend, philosopher and guide' for the villagers.

Extension officers in the Panchayat Samiti under study showed wide difference in their approaches and outlooks as well as in their length of service in the parent departments. Compared to the VLWs, they were better conscious of their status and position. The VLWs were rather too young (80 per cent of them were found below thirty years of age) too fresh in the field (70 per cent were found having less than five years of experience in the field) and too poorly educated (87 per cent of them were matriculates only) to cope with the increased volume of work under the new set-up of the Panchayati Raj. Being of this variety, the VLWs had very often to yield to the local bosses and to the increasing political pressures.

The non-official side or political side exhibited a unique complexion. The members differed from one another in their educational background, in their length of association with the village institutions like panchayats, cooperatives, etc., in their age groups and caste-groups, in their economic conditions etc., and all but one had the membership of the same political party, the Congress. Twentyfive per cent of them had linkages with the district level politicians and 15 per cent had linkages with even the state level politicians. This overwhelmingly one party complexion of the Panchayat Samiti, it was found, helped in bringing the administrative side relatively closer to the non-official side, as there was no possibility of the official side getting itself involved in the group or factional politics of the non-official side. However, this absence of factional feuds among the non-officials did not always make the relationship between the two wings cordial and harmonious.

The two official functionaries, EOs and VLWs carried different convictions about the capabilities and competence of their non-official partners and also about the tendency of non-officials to interfere in the matter of policy implementation. It was found that these different convictions were mainly because of the *degree* of their association with the non-official leaders and not because of their differences in educational and administrative background. The EOs had few chances to mix with the non-officials and therefore, they could not get rid of their prejudices about the capabilities of the non-official leaders. It was interesting to find that 75 per cent of the EOs preferred to travel with their official

colleagues rather than with any non-official leader, even though they knew that the association of non-official leaders would facilitate their own work. They were afraid first, of losing their 'neutral' image in the eyes of the people at large and also in the eyes of their superiors and subordinates and secondly, of the possibility of the political labels being attached to them if they travelled with the non-official leaders. This was in spite of their knowledge that all the non-official leaders in the Panchayat Samiti belonged to one political party only. These fears or prejudices about the non-officials kept EOs 'psychologically' away from the non-official side. The VLWs often worked at the field level and had several points of contact with the non-official side. It was because of the frequent contacts with the non-official leaders that the VLWs got more opportunities to think of the non-officials *objectively*.

Further, the threats, verbal or physical, given by the non-official side to the official side, spoke of the lack of cooperation or the absence of harmonious relationship between the two sides. It was found that the VLWs more than the BDO and the EOs, had to encounter this phenomenon very often. The VLWs' failure to adopt an extension approach and their tendency to have loose talk with the non-official leaders were the main factors, as were pointed out by the BDO and the EOs, behind the threat phenomenon. It was only in case of such VLWs as had close contact with the non-official and not of all, that the instances of verbal and physical threats from the non-official side came to the notice of their superiors. Hence, the smooth working of the administrative side depended on the very cautious behaviour and approach of each and every official while working with the non-officials in the field.

The system of supervision under the new set-up was the most important controversial point over which there was great resentment among the officials. It was indeed a new experiment in public administration as the technical officers or the extension advisers were put under dual control, i.e., under the technical control of their own parent department and under the administrative or operational control of the BDO. This was intended to keep up the level of advance in all branches of rural life at a uniform level.<sup>6</sup> However, the importance given to the non-official side as well as the close and regular contacts of the officials with the non-official leaders in day-to-day administration brought in one more 'non-official and non-technical authority' to supervise the administrative performance.

No official layer was found satisfied with this phenomenon of

<sup>6</sup> N. Prasad, "Panchayati Raj—Problems of Reorganization", *Panchayati Raj, Planning and Democracy* (ed.), op. cit., p. 443.

'the technical side being supervised by the non-technical staff like non-officials'. The principle of 'unity of command' was often violated as the EOs (some times) and the VLWs (always) were often subject to the supervision by several persons—officials as well as non-officials. Fifty per cent of the EOs carried the conviction that their sub-ordinates like VLWs, agricultural assistants, primary school teachers, etc., were very often inclined towards towing the line of the 'non-official bosses' than towards the official superiors. This dual or rather multiple supervision and control had an adverse effect on the working of the administration.

Interviews with the non-official side also revealed important matters having direct bearing upon the problem of relationship in particular and upon the problem of administrative efficiency in general. Firstly, few learned members criticised the practice of various departments of sending or deputing inefficient or otherwise unwanted persons to work in Panchayat Samitis. They were in favour of the creation of an independent and permanent cadre manned by real experts and placing it under the direct charge of the Zilla Parishad. This was necessary for creating a 'team spirit' among the officials themselves as, it was expected, they would then no longer possess different departmental outlooks and loyalties. Officials would then develop some affinity towards the Panchayat Raj bodies and this would bring them still closer to the democratic or political side.

Secondly, it was found that the non-officials did not like the participation of officials in local politics. Eighty per cent of the non-official leaders had a very low opinion about most of the VLWs and most of the primary school teachers who often took part in the local factional politics. These leaders had a sense of respect for the BDO and the EOs who refrained from involving themselves in any type of politics in the taluka. This had a definite effect on their behaviour with the VLWs as well as with the EOs and the BDO. It was found that the VLWs were not consulted on any specific issue by the villagers and instead the tendency among the village leaders was to consult the officials at the higher levels. The VLW was no longer looked upon as 'guide and philosopher' but at best only as a 'friend'. Thus, the direct involvement of officials in politics or even such a doubt in the minds of the village leaders had an adverse effect on the 'image' of the official concerned which consequently marred his efficiency in the field.

The non-officials expressed their dissatisfaction over two other important matters, namely, first, the target-minded nature of most of the officials and their tendency to submit reports based on false

information and secondly, the phenomenon of red-tapism. Thus, it was mainly on four counts that the non-officials expressed their resentment due to which they had developed some psychological distance from the administrative side.

Lastly, it was found that the relationship at the village level was more personal and intimate but also was one-sided as the VLWs were the outsiders, poorly recruited, far less mature and had often to rely on the village leaders to sell their services. Thus, by force of circumstances, the VLWs dared not assert their own will and had to depend on the village leaders. The picture was quite different at the Samiti or taluka level. Various complexes—inferiority and superiority—and prejudices about each other played their role in maintaining some psychological distance between the two wings at those levels. However, the 'Great Experiment' definitely brought the two wings closer to each other and succeeded in bringing about an *attitudinal* change in them. It made the officials more democratic and people-oriented in their outlook and the non-official leaders more appreciative of the administrative difficulties of the officials.

### *Some General Observations*

The point has been made earlier that the introduction of Panchayati Raj rationalized the democratic administrative structure in our country by creating democratic layers parallel to the administrative layers below the level of the State. These democratic bodies at the taluka and district levels are in most cases in the hands of the ruling political party at the State level. Naturally, the non-official leaders in these bodies have close linkage with the state level ministers and this linkage sometimes, though not always, puts the officials like the Chief Executive Officer at the Zilla Parishad level or the BDO at the taluka level in a most precarious position. "It is well known that even district collectors find it difficult to resist the pressure brought on them by the members of the state legislatures. It is no wonder that the executive officers of local bodies who in the majority of cases belong to a lower cadre of administrative service succumb to the elected Chairman"<sup>7</sup>. Sometimes the linkages are so strong that the BDO cannot take any disciplinary action against the erring panchayats. For instance, the BDO, who also acts as a block panchayat officer in Punjab and in this capacity inspects the village panchayats, is empowered to take disciplinary action when any abuses are brought to his attention. "Some of the Sarpanchas and Panchas whose work he may inspect, and adversely

<sup>7</sup> M. Venkatarangaiya, & M. Pattabhiram (ed.), *Local Government in India*, Allied Publishers, Bombay...New York, 1969, p. 58.

comment upon, are members of the panchayat samiti and in that capacity they may like to create embarrassments (even harassments) for the BDO and the social education officer in order to settle some old scores."<sup>8</sup>

The present author, while working as an investigator in a pilot study on the educational administration in Zilla Parishads in Maharashtra two years back, found that such linkages of the village leaders with the Zilla Parishad President, with the Chairmen of different subject-matter committees of the Zilla Parishad, and in some cases even with the MLAs, the MPs and the state level ministers very often put the officials in a difficult situation, particularly in the matter of teachers' transfers.

These linkages are sought both by the state level politicians and the local level leaders. "The state level politicians are keen on building up 'influence zones' in rural areas, recognizing that panchayati raj institutions would serve as vote banks in the future."<sup>9</sup> According to Iqbal Narain, in Rajasthan Panchayati Raj institutions were growingly becoming important as vote-banks both in regard to state and national elections.<sup>10</sup> Pointing out that the problem of political interference is not new, Aiyar hypothesises that the effects of political interference seem to increase as one moves down the structure of governmental arrangement. He further comments, "It is in the districts that one observes the most unlovely features of this new ecology of Indian administration. The strained relations between the officials and the elected members in Panchayati Raj are now a common feature of district administration all over the country."<sup>11</sup> This tendency of 'interfering through political linkage' seems to be a major factor which affects the administrative autonomy adversely and also hurts the feelings of the officials.

Further, the political composition of the democratic body also affects the administrative side in more than one important way. The author, while working as an Instructor in a Panchayati Raj Training Centre in a predominantly tribal district of Maharashtra, was told by one

<sup>8</sup> B. S. Khanna, "Some Empirical Observations in the Punjab Context", *Panchayati Raj, Planning and Democracy* (ed.), op. cit., p. 346.

<sup>9</sup> *Report on the Working of Panchayati Raj in the Jaipur District* (Mimeographed) Panchayati Raj Research Unit, Department of Economics and Public Administration, University of Rajasthan, Jaipur, 1963, pp. 136-46, quoted in the footnote by Mathur & Narain (ed.), "Introduction", *Panchayati Raj, Planning and Democracy*, op. cit., p. xxi.

<sup>10</sup> I. Narain, "The Emerging Concept", *Ibid.*, p. 32.

<sup>11</sup> S. P. Aiyar, "Political Context of Indian Administration", *The Indian Journal of Public Administration*, New Delhi, Vol. XVII, No. 3, July-September, 1971, pp. 341-42.

of the non-official member-trainees who happened to attend a training course in the centre, the following incident. It happened in his own taluka Panchayat Samiti which was dominated by the Communist Party members when the Sino-Indian border conflict erupted into war in the year 1962. The State government had taken a few communist party workers into custody under the Preventive Detention Act. The Taluka Panchayat Samiti concerned passed a resolution, paying no heed to the advice tendered to it by the BDO, that all the *detenues* should be released by the State government. The failure of the BDO in dissuading the Panchayat Samiti from passing such a resolution invited the wrath of the State government and ultimately the BDO was transferred to another place. Thus, it is clear that the situational factors often affect the behaviour of the officers and hence, their performance.

As the political nature of the democratic bodies, thus, very often violates the autonomy of administrative side and harms administrative efficiency, the development-oriented character of these bodies also works in the same direction. All the official functionaries under the Panchayati Raj set-up have seen a tremendous increase not only in the volume of work that they used to do before but even in the type of work they are now supposed to carry out. Legitimacy of their own subject is not strictly adhered to in actual practice and the officer has very often to perform a number of other duties which are strictly not his. For instance, the primary school teachers are supposed to look after host of other activities related to the small savings drive, family planning programmes, seed distribution, census, adult education, etc., so much so that their original duties in the school suffer. The same is true of the Extension Officers also who are now supposed to look after the multi-facet development of the Block. The EO (Education) or the EO (Agriculture) has to inspect, in addition to his original duties, the Village Panchayats also and thus have to perform the role of the EO (Panchayat) even though the latter functionary also is working in the block. This has affected these technical or extension functionaries in two important ways. Firstly, they have developed a feeling that their identity has been lost. Secondly, they have experienced an excessive increase in their 'span of control' due to which they are unable to cope with their supervisory and controlling functions in time and efficiently. The present author has observed this phenomenon in the study of the Taluka Panchayat Samiti referred to earlier and also at the time of studying the educational administration in the Zilla Parishads in Maharashtra. A few of the primary schools in every taluka often remain uninspected during the year and, wherever such inspection is carried out, it is too formal and superficial to serve any useful purpose. Thus, the political or power character of the democratic bodies violates

the autonomy of the administrative side as a whole, whereas the development character of these bodies violates the legitimate or original field of the individual officer and mars his efficiency. This factor is related to the problem of relationship also, as the officials have very often to decide on the priority to be given to any specific activity to be undertaken at a particular time and in this process have very often to hurt the feelings of persuading or pressurising non-official leaders.

### *Concluding Remarks*

The empirical study of a Taluka Panchayat Samiti presented in the beginning of this article showed that the relationship between officials and non-officials is really *central* to all other administrative problems like supervision, control, coordination, administrative improvement, etc. It also showed that the cordial relationship between these two functionaries is important for the satisfactory performance of the basic functions of the system. Involved in the problem of this relationship is not only different types of persons and their attitudes and prejudices but also first certain structural matters like the system of drawing different personnel from different outside development departments and again putting them under multiple control and secondly, non-structural matters or administrative tendencies like much concern for the rules and regulations, target oriented mentality of the officials, etc. Situational factors like the political linkages of the non-official leaders, the political complexion of democratic bodies, etc., impinge upon the legitimate field of the administrator and thus violate the autonomy of the administrative side. The developmental character of these democratic bodies has worked towards violating the legitimate or original field of the individual administrator. This has also adversely affected the overall tone of the administration.

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# THE CONTRIBUTION OF PANCHAYATI RAJ TO ADMINISTRATIVE EFFICIENCY—AN OBSERVATIONAL STUDY\*

Anter Singh

## *The Problem*

ONE of the major problems of economic planning is plan implementation and it is recognized that "there is need for far-reaching changes in procedures and approach and for re-examination of prevalent methods and attitudes"<sup>1</sup> adopted by those who are managing the activities. The biggest step in the direction was taken in 1959 by establishing democratic decentralization or Panchayati Raj. The hope was that these institutions would speed up plan implementation by providing for peoples' participation in administration.<sup>2</sup> But now, sometimes, it is felt that these Panchayati Raj<sup>3</sup> institutions are not conducive to administrative efficiency.<sup>4</sup> Empirical studies have also shown, from the responses of the officials, that these institutions have increased the political interference in administration.<sup>5</sup> Officials do not like to take advice from non-officials and follow their decisions.<sup>6</sup> They believe that non-officials do not take real interest in public affairs.<sup>7</sup>

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\*The study is based on observations made by the author during the meetings of three such institutions of district and tehsil levels where officials and non-officials sit on equal level and discuss administrative problems. Almost all the meetings of these Panchayati Raj institutions held between January, 1969 to October, 1972 were attended by the author.

<sup>1</sup> Planning Commission, Government of India, *Third Five Year Plan*, p. 277.

<sup>2</sup> Committee on Plan Project, *Report of the Team for the Study of Community Projects and N.E.S.*, 1957, Vol. I, Sect. 2, and Vol. II, pp. 96-116.

<sup>3</sup> K.K. Singh & Ashraf Ali, "Bureaucracy, Leadership and Development." (Draft), p. 23.

<sup>4</sup> Punjab Government has abolished Panchayat Samiti; U.P. Government has suspended Zilla Parishad and Andhra Pradesh Government is curtailing the powers of Panchayat Samiti—due to this type of feeling. Some study teams, however, are of the opinion that these institutions should be given more powers, for e.g. Naik Committee, ARC, Panchayati Raj Adhayan Dal, Rajasthan etc. and others like Chatakar Jha, "Indian Local Self-Govt." (1965), p. 178.

<sup>5</sup> Kothari & Roy, "Relations between Politicians and Administrators" (Draft), pp. 88-156; K.K. Singh and Ashraf Ali, *op. cit.*, p. 77; Dr. Desai & Dr. Roy "Functioning of Bureaucracy and Agricultural Development"; Michael A. Gould, "Politics, Administrative and Economic Development in an Indian State", p. 145.

<sup>6,7</sup> K.K. Singh & Ashraf Ali, *op. cit.*, pp. 7, 70-77; S. Kothari and Roy, *op. cit.*, p. 107, 131.



The purpose of this study is to see whether the Panchayati Raj and other institutions, which are an offshoots of these institutions have directly or indirectly contributed to the efficient implementation of the programmes envisaged in plans at the district level. The word "efficient" is ambiguous and has a wide meaning. But in this study only the crucial elements of 'decision-making', 'peoples' participation', 'coordination', 'communication', and 'control' have been included in the criteria of efficiency. Only those institutions have been covered in which officials and non-officials sit together to discuss and evaluate the programmes undertaken and design new programmes.

### *Methodology*

The empirical studies referred to above have adopted the questionnaire method and studied only the attitudes of officials, non-officials and the public. But, in this observational study, the concentration is on the behaviour of the officials and non-officials in the meetings of these institutions and the effect of this behaviour on the elements under study. For this, the meetings of three institutions,<sup>8</sup> two at the district level in one district of Rajasthan (Tonk), and one at the Panchayat Samiti level in one block of the same district—were observed for about four years (January 1969—October 1972).

In the first part of the paper, the composition of the three institutions is given. Some evidence of facts observed in the meetings is presented in the second part, and finally the data are analysed and conclusions drawn.

## I

### *Composition*

The Zilla Parishad under study contains 20 members including the District Development Officer. The non-official members are the M.P., M.L.A.'s, Pramukh, Pradhans and co-opted and associate members. The Zilla Parishad invites for its meetings an average number of as many as 40 officials of State, Division and district level. The main points on the agenda have been (1) review of progress in the execution of programmes; (2) sanction of Panchayat Samiti budgets; (3) dealing with important official letters, and (4) other matters such as famine, calamities, quota, economic difficulties, etc., with the consent of the chair.

<sup>8</sup> Panchayat Samiti, Newai; District Production Committee, Tonk; and Zilla Parishad, Tonk.

The District Production Committee comprises 14 members, including two officials; the District Development Officer as chairman and District Agriculture Officer as Member-Secretary. The other members are the M.L.A.'s, Pramukh, and Pradhans. All the officials who are concerned with issues which might be raised are invited. The main points on the agenda usually are: (1) review of the progress of the previous year or months; (2) fixation of targets; (3) formulation of future programmes for distribution of seed, fertilizers, pesticides, loan facilities etc; (4) electrification, irrigation, deepening of wells, bank loans and their priorities; and (5) any other topic with the consent of the chair.

The Panchayat Samiti has 42 members including the Block Development Officer (Member-Secretary). The other members are M.L.A., Pradhan, Sarpanches and co-opted and associate members. In the meetings of the Panchayat Samiti as many district level officers and block level officials should be present as possible. The main points on agenda in the Panchayat Samiti meetings, generally are: (1) discussion of the budget, accounts, administrative report, approval of new posts, disciplinary cases, and appropriation of money, etc; (2) administration and development of primary education, family planning, health, social welfare, production and construction programmes, etc; (3) Reviewing progress of various extension works; and (4) other matters with the consent of the chair.

## II

### *The Evidence*

1. In District Production Committee and Zilla Parishad meetings, all the Pradhans sit in a semi-circle facing the Chairman, other members on one side and the invited officials on the other. The Block Development officials or officials representing the Panchayat Samiti sit behind their respective Pradhans. The Block Development Officer does not speak much unless asked by the Pradhan of his Panchayat Samiti. The Pradhan asks him to provide data to support his (Pradhan's) argument.

2. (a) In a meeting of the Panchayat Samiti, one of the members (an MLA) asked the Block Development Officer why the Panchayat Samiti was not managing fisheries project properly? The BDO replied that seeds were not available. The Fisheries Officer (Sawai Madhopur) informed the meeting that he had plenty of seeds. The Block Development Officer pointed out that he had difficulty in getting transport for the seeds but a District Level Officer offered a jeep for

that purpose from his office.

(b) In a District Production Committee meeting, one of the Pradhans made an allegation that the electricity engineer did not give connections according to the priority list settled at the previous meeting. The Pradhan gave a new priority list but the District Level Officer challenged the list on the basis of his survey.

(c) In another meeting of the District Production Committee, the Executive Engineer (Electricity) complained that the tubewell connections were not being taken up by farmers when offered to them according to the demand lists prepared earlier. The Pradhan of the Panchayat Samiti concerned replied that the level of water in the wells was not high enough. The PWD Engineer suggested that they might utilize electricity for lift-irrigation purposes.

(d) In another meeting, the blasting supervisor (Tonk) pointed out that farmers did not want their wells to be deepened. He requested the pradhans to inform the farmers about the usefulness of such a step and outlined his scheme.

(e) In a Panchayat Samiti meeting, the District Agriculture Officer (Tonk) explained the procedure for obtaining seeds and the importance of the utilization of proper seeds.

(f) In a District Production Committee meeting, it was decided that, for crash employment programme, all the Block Development Officers should bring proposals every Tuesday at Tonk for the earth work capable of employing 100 persons per Panchayat Samiti area. They would meet PWD and irrigation engineers there and decide about the inspection dates and finalize things.

3. (a) In another meeting of the District Production Committee, the Executive Engineer (Electricity) raised the issue that the lengthy procedure of the Land Mortgage Bank and delay in loans was affecting the electrification of tube wells adversely. In the same discussion, an M.L.A. member proposed that the said loan should not be paid to companies providing machinery directly because the firms did not care to issue the implements promptly to the farmers.

(b) In another meeting, a Pradhan criticized the Government rules and regulations saying that they were very strict and rigid.

(c) In a Zilla Parishad meeting, a Pradhan demanded that the

details of the Panchayat Samiti budget should be read out fully before them; it was not enough, if the District Development Officer note was read out.

(d) In a Panchayat Samiti meeting, a Sarpanch complained against a patwari, a village level worker, and a family planning official.

4. In a Panchayat Samiti meeting on January 27, 1969, an official concerned with school administration proposed to close three primary schools in which the maximum presence of students was 11, 8, and 12 and minimum was 8, 2, and 8 respectively. The issue came up at every meeting held after that and the representatives tried to prevent any definite decision being taken and simply issued notices to the concerned Sarpanches every time threatening to close their schools. In a meeting on July 24, 1970, the Pramukh again advised to postpone the notice till the next meeting and then to close the schools, but the inspector of schools, Tonk, suggested that the time limit should be fixed at August 31, 1970 and this was accepted.

5. (a) In a Panchayat Samiti meeting the BDO proposed a policy for the allotment of residential plots and the Sarpanches presented their difficulties in the matter.

(b) In a Panchayat Samiti meeting a Sub-Divisional Officer explained to the Sarpanches such revenue matters as the government declaration of the year as the 'records' year', the policy concerning—mutation, pass-books, *jama bandi*, etc.

(c) In a District Production Committee meeting, the District Development Officer asked a representative from the Land Mortgage Bank to explain the letter issued by the Bank concerning the decision on targets about the improvement of land with bank's aid. The District Agriculture Officer helped him out.

6. In a Panchayat Samiti meeting, members did not take active part in the discussion on issues like budget, accounts, appointments and sanction of staff posts (like peon, etc.) involving a salary bill of Rs. 6,263 per annum, the approval of an amount of Rs. 6,856 to satisfy audit objections, Rs. 500 contribution to Jawans from its own income, sanction for utensils (Rs. 940) for Poshahar, etc. But they avoided tax proposals by saying that they should check up whether it was imposed in other Panchayat Samitis. In another case, the Panchayat Samiti was given a piece of land by a Panchayat for a poultry and sheep farm but the Panchayat Samiti left it unutilized after some construction work. The Panchayat demanded the land back but some of

the Sarpanches opposed it saying that because of the construction cost paid by the Panchayat Samiti they should sell the land.

7. There is a lot of difference in the roles of secretaries in these three institutions. The Block Development Officer (Secretary) dominates the Panchayat Samiti meetings, if the MLA is not present; the District Agriculture Officer (Secretary, District Production Committee) initiates discussion in the District Production Committee meetings, while the District Development Officer maintains order and directs the discussion but all members take equal interest in the discussions. In the Zilla Parishad, the secretary merely provides secretarial help.

### III

#### ANALYSIS

##### *Decision-making*

Both rationality and effectiveness are equally related to the quality of a decision. Rationality requires correct assessment of related facts and situations and an unbiased selection from the maximum possible alternatives. Effectiveness, though concerned with correctness of a decision, also depends upon the clarity of mind and faith of the people concerned with the decision. Persons participating in implementation of that decision should feel loyalty and commitment to the decision.

These institutions make it possible that decisions are made by a group of people and the personality factor is not so important. The Collector for example in the District Production Committee meetings only maintains order and directs the discussion (see. II, 7). The persons involved in the decision-making processes are intelligent and actually concerned with the problems of the field and represent various sections and professions. This may be seen from the composition of these bodies (see I). Decisions made at this level are based on actual information and are related to the situation of the field [See II, 2(a) (b) (c) & (f)]. The persons who are responsible for carrying out the decisions do participate in decision-making and, moreover, the meetings, at which all the people concerned are present and have discussions, provide for greater speed and exactness in decisions [(See II, 2 (f))].

It has been observed that while non-officials representing lower units like the Panchayat Samiti are present Panchayat officials concerned do participate in the discussions with vital arguments, challenge the statement of the non-officials and offer alternative schemes.

This gives effectiveness to the decisions [see II, 2(b) & (e)]. But sometimes non-officials undermine rationality by interfering under public pressure (see II, 4). Sometimes during discussions arguments advanced by responsible officers are challenged strongly as for example the BDO's argument about fishery seed was [see II, 2(a)]. This shows that the trend is towards and achievement-orientation. In this example the problem and the way out were the main points in the view of the challenger and not the personality or the post. During the decision-making process, representatives try to secure the public interests, such as quality and price of seed and fertilizers, provision of implements on loan basis, etc.

At lower levels, representatives are not much interested in participating in decisions, involving financial liabilities as long as these do not result in direct and immediate taxes. But they resist new taxes and speak against it, if any of the Panchayats gets benefited from Panchayat Samiti (see II, 6). Decisions are revised from time to time in the light of the results assessed in periodical progress reports which are read out in these meetings by officers concerned.

### *Control*

The effective instruments of control are not checking procedures based on legality, but an environment which keeps officials and non-officials within the limits and standards of performance. Through these institutions, officials are not controlled by those who are bosses and are responsible for control, but by popular vigilance, subordinates and colleagues.<sup>9</sup> Face to face discussions among equals require a good performance standard. Here facts control officials and they cannot avoid responsibility by providing mere arguments [see II, 2 (a)]. Representatives help the senior officials in controlling junior officials in the field below the block level which bosses cannot do effectively from a distance [see II, 3 (d)]. These meetings force the DLO's to face questions, complaints, etc., and in this way keep administration responsive and even responsible<sup>10</sup> [see II, 2 (b) & (c)]. Progress reports are read at most of the meetings by the officer concerned and he has to answer for failures in performance. In this atmosphere, prestige and morale rather than any direct punishment are evolved as the means of control.

<sup>9</sup> The author feels that generalists, specialists and people's representatives here create an atmosphere which contributes to positive control. This may provide one possible model for larger democratic structure within the country.

<sup>10</sup> Dr. C.P. Bhambhari has suggested for 'Question Hour' in Zilla Parishad and Panchayat Samiti meetings to allow public in the meeting. See C.P. Bhambhari "Bureaucracy and Politics in India". 1971, p. 276.

In these meetings questions are generally asked not out of a desire to find faults but with the desire of achieving certain performance targets [see II, 2 (a), (c); II, 3 (a); II, 5(c) and even II, 3 (b) and (d)]. Political interference—also may be lessened or controlled through competition among the demands of the various representatives and officials belonging to different areas which can be seen in the date given by the inspector of schools (see II, 4) and in the District Level Officer's challenge in [E II, 2 (b)]. In these meetings the relationship among the participants is fairly cordial because in the presence of the gathering, the exchange of words has to be polite. At the Panchayat Samiti level, political interference may be there because the Sarpanches are not very conscious of their share and role in the projects [see II, 2 (a), (b), (c), II, 3 (a) and II, 5 (c)]. So these meetings provide a control system where nobody can continue to be jealous of anyone's controlling power and style.

### *Coordination*

A smooth communication, self-control and a correct decision based on full participation automatically produce better coordination. People belonging to various professions, jobs, sections and interests participate in these meetings (for example: politicians, generalists, specialists, developmental and revenue officials). They draw up a common programme [see II, 2 (c) & (f)], voice their difficulties frankly [see II, 2 (a), (b) & (c); II, 3 (a), (b) & (c), II, 5 (a) (c) and II, 6], criticize one another [see II, 2 (a), (b) & (c); II, 3 (a), (b) & (c)], read progress reports and ask questions. Through these meetings better utilization of available means is possible because all the persons having knowledge and charge of materials participate in the discussion. They seem to be achievement-oriented in the meetings because they want praise from colleagues and the public<sup>11</sup>, by showing cooperation and their better knowledge [see II, 2 (a), (c), (d) & (e); II, 3 (a)]. II, 2 (f) is sufficient evidence to prove that better programmes can be chalked out and co-operation of representatives, generalists and specialists can be sought for planning a programme with the help of these meetings.

### *Communication*

“... often a single word or a raised eyebrow conveys all the meanings necessary.... The single most important technique in better communication is ‘feedback’.... And the first essential for maximum

<sup>11</sup> K. K. Singh and Ashraf Ali find out that 80 per cent of the Government workers feel that “popularity among the people” gives “personal satisfaction in present job”, *op. cit.*, p. 164.

feedback is face-to-face communication."<sup>12</sup> With this as the criterion we can say that these meetings provide a two-way communication because they are face-to-face. The status of the participant, his misunderstandings or lack of knowledge and information are no bar to the communication system here. Mutual communication is not through the written letter but the persons concerned meet, discuss and decide [(see II, 2 (a), (b), (c) & (f); II 5 (a) and II, 6)]. Administrative policies, decisions and procedures are explained by the officials concerned and conclusions removed [(See II, 2 (d), & (e), II, 3 (a); and II, 5 (b) & (c).]

The term peoples' participation is generally used in Community Development literature for people's contribution in construction works in terms of labour, cash or kind.<sup>13</sup> But in this paper, the psychological aspect of participation, which is the most difficult aspect to achieve,<sup>14</sup> is considered. It is very clear from the writer's observation that people, through their representatives, do participate in decision-making and controlling processes of the district administration. This is present in a higher degree at the district level in comparison to the block level.<sup>15</sup>

The author in another study of the same institutions, taking attendance of members and invitees in the meeting during the same period as index of participation, has found that the participation is gradually increasing.<sup>16</sup>

We can conclude by saying that the Panchayati Raj institutions under study are contributing significantly to administrative efficiency. But this cannot be generalized as the area covered by this study is very limited. A detailed study on these lines may help to bear out these conclusions.

<sup>12</sup> Leonard Sayles "On-the-Job Communication: why isn't. It Easier?" in "Leadership on the Job", Selected readings from supervisory management, The American Management Association, Inc., p. 37.

<sup>13</sup> Panchayati Raj Adhayan Dal, *op. cit.*, para 13.3.

<sup>14</sup> L. Pye, "Politics, Personality and Nation-Building", Preface, p. xv.

<sup>15</sup> The Committee on Panchayati Raj (Chairman : G. L. Vyas) in Rajasthan has favoured direct election for Panchayat Samiti members. (*The Indian Express*, Nov. 4, 1972, p. 9) This, if accepted, can enhance the participation.

<sup>16</sup> Anter Singh, Presence Behaviour in the meetings of Panchayati Raj Institutions—A Case Study.



## PERSONNEL ADMINISTRATION UNDER PANCHAYATI RAJ

### THE ORGANISATION AND WORKING OF THE RAJASTHAN PANCHAYAT SAMITIS AND ZILA PARISHADS SERVICE SELECTION COMMISSION 1959-1970

*Ravindra Sharma*

ONE of the greatest weaknesses of local government structures all over the world has been the chronic inability of the individual local government institutions to recruit adequately qualified personnel.<sup>1</sup> In India also, the institutions of urban as well as rural local self-governments have regularly faced this problem and various institutional mechanisms of personnel administration have been employed to handle the recruitment function such as short-term deputation of government servants, creation of state-wide cadres and centralized selection of employees of local self-government institutions.<sup>2</sup>

While the Balwantray Mehta Study Team did not make any concrete proposals for personnel administration under Panchayati Raj, the Government of Rajasthan opted for partial institutionalization of the recruitment function by appointing a separate commission, called the Rajasthan Panchayat Samitis and Zila Parishads Service Selection Commission (RPSZPSSC), charged with the duty of making selections for a specified range of posts. Of course, the bulk of the staff working in various Panchayati Raj institutions in Rajasthan are on deputation from the Government but Rajasthan Panchayat Samitis and Zila Parishads Act, 1959 made a specific reference for constitution of a separate cadre called Panchayati Raj Service<sup>3</sup> and encadred a

<sup>1</sup> *Local Government Personnel System*, United Nations, New York, 1968.

<sup>2</sup> M.V. Mathur, Iqbal Narain and V.M. Sinha, *Panchayati Raj in Rajasthan : A Case Study of Jaipur District*, 1966; and R. Argal, *Municipal Government of India*.

<sup>3</sup> At the time of creation of Panchayati Raj Services, the following posts were encadred in which certain changes were introduced later on: (i) Gram Sewak, (ii) Gram Sewika, (iii) Primary School Teacher, (iv) Fieldmen, (v) Stockmen, (vi) Stock Assistant, (vii) Veterinary Compounder, (viii) Poultry Demonstrator, (ix) Sheep and Wool Inspector, (x) Dresser, (xi) Vaccinator, (xii) Upper Division Clerk, (xiii) Lower Division Clerk, (xiv) Driver, (xv) Projector Block, (xvi) Mate (Industries). *Vide* Rule 4 of the Rajasthan Panchayat Samitis and Zila Parishads Service Rules, 1959.

number of posts in it.<sup>4</sup>

The Rajasthan Panchayat Samitis and Zila Parishads Service Selection Commission thus operates as a key agency for recruitment of Panchayati Raj personnel encadred in the Panchayati Raj Service and its role is analogous, in a way to the Union Public Service Commission and the Rajasthan Public Service Commission although the scope of its operation is limited only to the posts encadred in the Panchayati Raj Service and the other Panchayati Raj personnel continue to be recruited by other agencies at different levels.

In this article, an attempt has been made to present a case study of the organisation and working of the Rajasthan Panchayat Samitis and Zila Parishads Service Selection Commission. The article has been written on the basis of (a) the study of the reports,<sup>5</sup> acts, gazettes, books and journals; (b) interviews, both formal and informal, with the Panchayati Raj personnel, the Secretary of the Commission, employees of the Commission, and members of the Commission; and (c) field observations. Earlier, a study of the organisation of this Commission was made by P.D. Sharma in 1964, based on the formal rules and procedures.<sup>6</sup> But that study did not provide sufficient data about the operational aspect of the Commission. In this paper, an attempt has been made to supplement the study of the formal framework with operational data regarding the working of the Commission.

## II

### THE STRUCTURE AND COMPOSITION OF THE COMMISSION

The Commission consists of three members,<sup>7</sup> out of whom two

<sup>4</sup> According to the fifth Report submitted to the Government in 1970 on the working of the Commission following posts are encadred in the Rajasthan Panchayat Samitis and Zila Parishads Services created in 1959 under the Rajasthan Panchayat Samitis and Zila Parishad Act, 1959: (i) Gram Sewak, (ii) Primary School Teachers, (iii) Veterinary Compounders, (iv) Poultry Demonstrator, (v) Stockmen, (vi) Vaccinator, (vii) Dresser, (viii) Upper Division Clerk, (ix) Lower Division Clerk, (x) Driver, (xi) Mates, (xii) Group Panchayat Secretary, (xiii) Gram Sewika.

<sup>5</sup> By the end of 1970, five reports had been submitted to the government on the working of the Commission. The first report was submitted in 1964 covering the period from the beginning to December 31, 1963; second for the period from January 1, 1964 to December 31, 1965; third report for the period January 1, 1966 to December 31, 1967, fourth was from January 1, 1968 to March 31, 1969 and the fifth for the period from April 1, 1969 to March 31, 1970.

<sup>6</sup> P. D. Sharma, "Rajasthan Panchayat Samitis and Zila Parishads Service Selection Commission", *Political Science Review*, Vol. 3, No. 2, 1964, pp. 128-134.

<sup>7</sup> Vide Section 86 of the Rajasthan Panchayat Samitis and Zila Parishads Act, 1959.

are appointed by the State Government who are called permanent members, possessing the prescribed qualifications, of whom at least one is an officer of government, whether retired or in active government service.<sup>8</sup> The Zila Pramukh of the district, for which selection is made, serves as the third member of the Commission. One of the permanent members is nominated by the government as Chairman of the Commission.<sup>9</sup>

### *Chairman*

Under sub-section 7 of Section 86 of the Rajasthan Panchayat Samitis and Zila Parishads Act, 1959, the State Government can nominate one of the permanent members as Chairman of the Selection Commission. It is at the discretion of the State Government either to nominate an official permanent member or a non-official permanent member as Chairman.<sup>10</sup> An official member was nominated Chairman of the Commission till 8 January, 1967, and a non-official permanent member thereafter. The details of the successive appointments to the office of the Chairmanship of the Commission are summarised in Table 1. Mohan Lal Vasvaney was the first non-official permanent member to become Chairman on 9 January 1967 when he was appointed for a term of 3 years, and was reappointed in 1970 as Chairman of the Commission.

According to the rules, the Chairman shall hold office for a term not exceeding three years from the date on which he joins his office or until he attains the age of 60 years, whichever is earlier.<sup>11</sup> The minimum age, required for the appointment to the Commission as Chairman, is 50 years.<sup>12</sup>

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<sup>8</sup> An official of the State Government, retired or in active government service, can be appointed as permanent member of the Commission if he is of the rank not lower than that of a Collector or a Head of Department of the State Government drawing a substantive pay of not less than Rs. 850 per month. A person other than a State Government servant (whether retired or in active government service) can be appointed as member of the Commission if he is at least a graduate, a person of status and known for his integrity, *Vide* Section 86 of the Rajasthan Panchayat Samitis and Zila Parishads Act, 1959.

<sup>9</sup> *Ibid.*

<sup>10</sup> Government of Rajasthan, *Handbook on Panchayati Raj*, Vol. II, 1959.

<sup>11</sup> *Ibid.*

<sup>12</sup> *Ibid.*

TABLE 1

## DETAILS REGARDING CHAIRMAN OF THE COMMISSION

S. No.	Name	Date of joining the Commission	Remarks
1	Hetudan Ujwal	14.11.1959 to 13.11.1960	retired IAS
2	C. Jacob	For 3 years from 11.2.1961 worked up to 10.2.1964	RHJS
3	Surya Swaroop Mathur	1.5.1964 to 13.1.1966	IAS
4	Vimal Chandra Mukerji	13.1.1966 to 15.10.1966	IAS
5	Sharaf Ali Ahamadi	5.11.1966 to 9.1.1967	IAS
6	Mohan Lal Vasvaney	from 9.1.1967	Non-official (B.A., LL.B)

SOURCE: The reports on the Working of the Commission.

Under the rules, if the Chairman is not a government servant (whether retired or in active government service) he draws a salary of Rs. 2,000 per month.<sup>13</sup> If the Chairman is in active government service, he draws his substantive pay plus a special pay of Rs. 250 per month. If the Chairman is a retired government servant, or retired after appointment as Chairman, he draws a pay of Rs. 1,000 per month in addition to his pension including such portion of the pay as may have been commuted. Here the pension includes pensionary equivalent of death-cum-retirement gratuity.<sup>14</sup>

<sup>13</sup> Under the original rules, this amount was Rs. 1,200 per month, but this was raised to Rs. 2,000 by introducing an amendment in the rules which was made effective from January 9, 1967. *Vide*, the order No. S. F. 23(2)/Appoints/60, Appointment (A-5) Department, Government of Rajasthan, Jaipur.

<sup>14</sup> Government of Rajasthan, *Handbook on Panchayati Raj*, Vol. II, 1959, p. 34.

The Chairman holds an important position in the Commission. For all practical purposes, he is the head of the Commission and provides leadership in its working. Coordination of all the activities of the Commission is one of his important functions. Since he heads the institution, he has been made the appellate authority for all disciplinary cases regarding the staff of the Commission.<sup>15</sup>

### *Member*

Besides the Chairman, there is one full-time member of the Commission.<sup>16</sup> He helps the Chairman to coordinate the activities of the Commission. The member can hold the office for a term of three years or till he attains the age of 60 years, whichever is earlier.<sup>17</sup>

If the Chairman is on leave or on the occurrence for any reason of a vacancy in the office of the Chairman, the member may be appointed as Chairman by the Government.<sup>18</sup> The member so appointed performs the duties of the Chairman.

If the member is in active government service, he draws Rs. 150 per month in addition to his grade pay.<sup>19</sup> If he is a retired government servant, he draws Rs. 850 per month in addition to his pension (pension includes pensionary equivalent of death-cum-retirement-gratuity) including such portion of it as may have been commuted. If he is not a government servant (whether retired or in active government service), he draws a fixed salary of Rs. 1,000 per month.<sup>20</sup>

In accordance with the rules, the Government has appointed 4 persons to serve as the members of the Commission so far as per details given in Table 2. It will be seen from Table 2, that up to 1967 non-officials were appointed as members. Thereafter the member has been chosen from government servants. The average duration of a person remaining as a Member of the Commission comes to nearly two and a half years.

Thus it appears that during the formative phase of the Commission, the government adopted the policy of appointing an official as

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<sup>15</sup> Government of Rajasthan, *Handbook on Panchayati Raj*, op. cit.

<sup>16</sup> *Vide Handbook on Panchayati Raj*, Government of Rajasthan, Vol. II, 1959.

<sup>17</sup> *Ibid.*

<sup>18</sup> *Ibid.*

<sup>19</sup> *Ibid.*

<sup>20</sup> *Ibid.*

TABLE 2

## DETAILS REGARDING MEMBERS OF THE COMMISSION

<i>S. No.</i>	<i>Name</i>	<i>Date of appointment/ joining the Commission</i>	<i>Remarks</i>
1	Ismail Ali	From 22.3.1960 to 21.3.1963 Reappointed from 22.3.1963 for 3 years but served up to 31.12.1963	B.A., LL.B. (non-official)
2	Mohan Lal Vasvaney	Appointed from 26.12.1964 for one year. His terms of service was extended for 2 years from 26.12.1965. But served as Member up to 23.2.1967.	B.A., LL.B. (non-official)
3	Rajeshwar Das Khanna	From 24.2.1967 to 2.9.1968	IAS, B.A., LL.B
4	Parma Nand Sharma	From 21.9.1968 to 31.3.1970 and onwards	R.A.S. (retired)

SOURCE: The reports on the Working of the Commission.

the Chairman while the permanent member was a non-official. This policy continued up to 1967 when an IAS official was appointed as member and a non-official was appointed as Chairman. This pattern of a non-official Chairman and an official member continues to the present day.

### *Staff of the Commission*

The staff of the Commission consists of the Secretary, ministerial staff and Class IV employees. The strength of the staff is determined by the State Government from time to time.

### *Secretary*

The Secretary of the Commission is appointed by the government from among persons encadred in a state service. It is a gazetted post.

From October 10, 1969, the Commission has been having a Secretary from the Selection Grade of Rajasthan Administrative Service. Earlier, the Commission used to have some one from senior scale of Rajasthan Administrative Cadre. The Secretary provides general administrative assistance to the Commission so that the Commission can function effectively and efficiently. The Secretary helps in coordinating the activities of the Commission.

Besides, the Secretary is responsible for looking after certain aspects of personnel administration. He is authorised to impose penalties on ministerial staff of the Commission as prescribed in the Rajasthan Government Civil Services (Classification, Control and Appeal) Rules, 1958. Class IV servants are appointed by him. The relevant information regarding the Secretaries of the Commission is given in Table 3.

### *Ministerial Establishment*

Under the rules, appointments to the ministerial non-gazetted posts are made by the Secretary to the Commission subject to the approval of the Chairman. In the first instance, the following non-gazetted staff and Class IV employees were sanctioned by the government.<sup>21</sup>

1. Office Superintendent	1	Grade I
2. Stenographers	2	Grade II for the Chairman and Grade III for the Member
3. Upper Division Clerks	3	
Accounts Clerk	1	
Lower Division Clerk	8	
4. Class IV servants	9	2 Orderlies for Chairman 2 Orderlies for Members 1 Orderly for Secretary 1 Cycle Sawar 2 Office Peons

One post of Class IV employee was, however, retrenched subsequently on account of the 22 per cent general cut. As a result, only

<sup>21</sup> The Third Report on the Working of the Commission, 1966-67, p. 2.

TABLE 3

## DETAILS REGARDING SECRETARY OF THE COMMISSION

<i>S. No.</i>	<i>Name</i>	<i>Cadre</i>	<i>Period of serving in the Commission</i>	<i>Remarks</i>
1	B.K. Binjoo	RAS Senior scale	From 19.12.1959 to 14. 6.1961	Transferred thereafter
2	S.L. Mathur	RAS Senior scale	From 15. 6.1961 to 14.11.1962	Retired thereafter
3	Abdul Ghaffar	RAS Senior scale	From 15.11.1962 to 23.12.1962	Transferred thereafter
4	Mandhata Singh	RAS Senior scale	From 24.12.1962 to 31.12.1963	Resigned and joined politics thereafter
5	Rang Dutt Sharma	RAS Senior scale	From 1. 1.1964 to 15.10.1965	Transferred thereafter
6	Ugam Raj Lodha	Karyalya Adhikhashk	From 1. 1.1964 to 30. 4.1964 (The period during with Rang Dutta Sharma remained on leave)	
7	Paras Mal Bhansali	Karayavahak Adhikhashk	From 16.10.1965 to 21. 2.1966	
8	Shubh Karan Kaviraj	RAS Senior scale	From 22. 2.1966 to 10.10.1969	Transferred as Revenue
			From 30.10.1968 S.K. Kaviraj was sanctioned Selection Grade and he was appointed on the same post.	Appl. authority, at Bikaner
9	Jagdish Narain Mathur	RAS Selection Grade	From 10.10.1969 onwards	

SOURCE: The Reports on the Working of the Commission.



one peon was left for the office. The Commission asked the government for the creation of the following additional posts.<sup>22</sup>

1. Assistant Secretary	1	Gazetted
2. Upper Division Clerks	9	
3. Lower Division Clerks	9	including 4 typists
4. Class IV employees	5	
5. Machine man	1	

The Government agreed to sanction only the following posts:

1. Upper Division Clerks	5	3 permanent and 2 temporary
2. Lower Division Clerks	4	2 permanent and 2 temporary

The government was again requested to sanction the remaining posts. This request was, however, not acceded to.

### III

#### FUNCTIONS AND OPERATIONS OF THE COMMISSION

As the apex organisation for the recruitment of Panchayati Raj personnel, the Commission is mainly responsible for the following functions.<sup>23</sup>

- (i) Recruitment, selection and recommendation for posting;
- (ii) Extension of the temporary appointments exceeding one year;
- (iii) Inter-district transfers; and
- (iv) Other functions

#### (i) *Recruitment, Selection and Certification for Posting*

The Commission recruits, and selects people for categories enlisted in the Rajasthan Panchayat Samitis and Zila Parishads Services.<sup>24</sup> The Commission also certifies the posting of such persons. Rule 8 of the Rajasthan Panchayat Samitis and Zila Parishads Service Rules, 1959 requires each Panchayat Samiti or Zila Parishad to determine and intimate to the Commission at the commencement of every year the number

<sup>22</sup> The Third Report on the Working of the Commission, 1966-67.

<sup>23</sup> *Vide Handbook on Panchayati Raj*, Government of Rajasthan, Vol. II, 1959 and the Reports on the Working of the Commission.

<sup>24</sup> The Rajasthan Panchayat Samitis and Zila Parishads Act, 1959, p. 59.

of vacancies anticipated under each category in the following year.<sup>25</sup> However, the Commission did not receive this information. Consequently, circulars were issued to all Panchayat Samitis and Zila Parishads instructing them to send the requisitions.<sup>26</sup> However, it was discovered that correct information on this aspect was not being supplied, if supplied at all.<sup>27</sup>

On the receipt of requisition, the vacancies are announced by the Commission in the Government Gazette. The Commission also writes to the Department of Public Relations to get the posts advertised in any two newspapers of the State having large circulation. When there is a sizable demand, the Commission directs the Public Relations Department to publish the advertisement in newspapers which have circulation in districts and zones of those districts having a large number of vacancies. Letters to the Zila Parishads and Panchayat Samitis are also sent instructing them to publicise the vacancies. On receipt of such a circular, the Panchayat Samitis and Zila Parishads comply with the instructions contained therein and also inform the temporary employees working on the posts in order to enable them to apply for permanent posts. Mostly the advertisements appear in Hindi newspapers with relatively wider circulation in the State and in the Government gazette. Considering the posts for which the Commission has to make selection, it can be said that the circulation of the advertisement is adequate. However, the advertisements fail to attract the right type of persons because in the advertisements no mention is made of future prospects of the posts, their scale, promotion opportunities, etc.

### *Interviews*

According to the procedure laid down for direct recruitment for the categories enlisted in the Rajasthan Panchayat Samitis and Zila Parishad Service, the applications received are scrutinised and then candidates are called for interview. The selections are made districtwise. The Pramukh of the district concerned is an *ex officio* Member of the Commission for purposes of recruitment for posts vacant in his district.

The Commission conducts interviews for preparing a merit list of the candidates at each district headquarter. For administrative convenience, both the permanent members of the Commission have more or less equally divided the districts of Rajasthan between themselves, and

<sup>25</sup> The First Report on the Working of the Commission, 1963, pp. 4-5.

<sup>26</sup> *Ibid.*

<sup>27</sup> *Ibid.*

undertake visits to these districts for making selections. Therefore, the Commission functions as a Selection Committee at the district level consisting of the Pramukh of the district and one of the two permanent members of the Commission.<sup>28</sup>

The administrative staff of the Commission revealed that the duration of the interview of each candidate is about five minutes. In an informal interview with forty-five Gram Sewaks serving in Jaipur district, thirty-eight Gram Sewaks reported to the author that they had tried to influence the Commission by political and social pressures to get themselves selected. According to them, the interviews were a mere formality and the candidates were chosen before hand. Seven other Gram Sewaks, however, felt that the selections were made on the basis of merit. Field survey impressions unmistakably reveal that the interviews are conducted only to complete a formality and that members have ample opportunity to show favouritism while making selections.

In every advertisement issued by the Commission, reservation of 12.50 per cent for scheduled castes and scheduled tribes was specifically mentioned, but as the required number of applicants possessing the prescribed qualifications was not available in a number of districts, the selection was below the reserved quota.<sup>29</sup>

Table 4 shows that the Commission made selections for nearly all the posts in first two years of its working. Teachers, Gram Sewaks, drivers and lower division clerks were selected, by and large, each year. Because of financial cut in 1963, the posts of Gram Sevikas were abolished. The Commission made selection of Gram Sewikas again in 1968 since the Government had again created some of these posts. The total number of selections made by the Commission varies from year to year. It is worth noting here that the Commission made no selection for Sheep and Wool Supervisors, Poultry Demonstrators, Fieldmen Junior, Fieldmen Senior and Mates (Industries) after 1961 because the posts of Compost Inspectors and Fieldmen were abolished in 1963 and Panchayat Samitis and Zila Parishads had also not made requisitions for such posts.

In spite of the absence of legal provisions in the beginning, the Commission received requisitions from the Director of Training,

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<sup>28</sup> Under the Rajasthan Panchayat Samitis and Zila Parishads Act, 1959, pp. 59-60, the Chairman, full time member and the Pramukh were required to complete the Selection Commission. Considering practical aspects an amendment was introduced so that the selections made by one of the full time members of the Commission and the Pramukh of the district, sitting together, are deemed to have been made by the Commission, *vide* Rajasthan Gazette, Extraordinary : Part IV-A, dated April 5, 1961.

<sup>29</sup> *Vide* the Reports on the Working of the Commission,



TABLE 5  
SELECTION OF GRAM-SEWAKS AND TEACHERS

S. No.	Posts	1960	1961	1962	1963	1964-65	1966-67	1968	1969
		$\begin{matrix} 1 & 2 \\ \hline \end{matrix}$	$\begin{matrix} 1 & 2 \\ \hline \end{matrix}$	$\begin{matrix} 1 & 2 \\ \hline \end{matrix}$	$\begin{matrix} 1 & 2 \\ \hline \end{matrix}$	$\begin{matrix} 1 & 2 \\ \hline \end{matrix}$	$\begin{matrix} 1 & 2 \\ \hline \end{matrix}$	$\begin{matrix} 1 & 2 \\ \hline \end{matrix}$	$\begin{matrix} 1 & 2 \\ \hline \end{matrix}$
1	Gram Sewak (VLW)	470	171 5856 1383	4308 420	5845 832	2713 381	2829 331	2570 140	4083 106
2	Teachers	3234 1156 10349	7455 13731 5311	13031 3748	19457 6586	24741 5390	7514 868	6898 857	

Source: The reports on the Working of the Commission.

1=Number of applications received

2=Number of candidates selected

chayat and Development Department, Rajasthan, Jaipur, for the post of Village Level Workers and from the Director of Primary and Secondary Education, Rajasthan, Bikaner, for recruitment of teachers for training of Basic S.T.C. for Panchayat Samitis. In 1968, at a meeting of the higher level officials of the Development Department, Government of Rajasthan, it was realised that the service rules had not make any provision for the Government sending requisitions to the Commission. At the same time it was deemed necessary that in order to facilitate pre-entry training of the Gram Sewaks and of the Teachers, Government's control over their recruitment and selection was a 'must'. Therefore, an amendment was made in rule 15 of the service rules on July 5, 1968.<sup>30</sup> By this amendment, the Government also acquired the power to make requisitions to the Selection Commission.

### (ii) *Extension of Temporary Appointments*

According to Rule 23 (5) of the Rajasthan Panchayats and Zila Parishads Service Rules, 1959, a temporary appointment made by the Panchayat Samitis or Zila Parishads should not be continued for a period exceeding 12 months without prior concurrence of the Commission. The Commission issued necessary instructions in this behalf to all the Panchayat Samitis and prescribed a proforma for furnishing the required information to the Commission. Table 6 shows the number of cases in which extensions were granted each year.

TABLE 6  
EXTENSION OF TEMPORARY APPOINTMENTS

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Total number of ex- tension cases	246	210	276	323	93	71	210	111	47	54

SOURCE: The report on the Working of the Commission.

The table shows that the cases of extension of temporary appointments were many in early 1960s. The highest number of such cases was 323 in 1963 whereas the lowest was 47 in 1968.

<sup>30</sup> *Vide* Gazette notification dated July 5, 1968.

In spite of repeated direction to the Vikas Adhikaris by the District Establishment Committee and the Commission to avoid delays in obtaining prior permission for the extension of temporary persons in various cases, extensions were sought after abnormal delays.<sup>31</sup>

### (iii) Inter-district Transfers

Under Section 86(9) of the Rajasthan Panchayat Samitis and Zila Parishads Act, 1959, the Commission was authorised to recommend inter-district transfers of members of the Panchayat Samitis and Zila Parishads Service.<sup>32</sup> Therefore, the Commission issued circular letter no. 2050-2307 dated 8 April 1960, to all the Vikas Adhikaris, Panchayat Samitis, and Secretaries of Zila Parishads, prescribing the procedure and the form in which such transfer applications were to be sent to the Commission. These applications for transfer were mostly from those members of the Service, who wanted to be posted to their home districts. The number of transfers recommended by the Commission are given in Table 7.

TABLE 7

#### RECOMMENDATIONS REGARDING TRANSFERS

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Total number of cases	149	231	196	644	258	180	68	98	171	68

SOURCE ; The reports on the Working of the Commission.

The table shows that the highest number of cases of the recommendations of inter-district transfers was 644 in 1963. After 1963, there was considerable fall successively each year till 1966. But it again started increasing thereafter till 1968, whereas in 1969 it was much below as compared to the preceding year.

<sup>31</sup> *Vide* reports on the Working of the Commission.

<sup>32</sup> According to the first report on the Working of the Commission, there had been cases in which the heads of Departments directly issued Transfer and Posting orders in respect of the posts encadred in the Rajasthan Panchayat Samitis and Zila Parishads Service. This act on the part of the Heads of the Departments was *ultra vires*. Hence it required clarification and the Development Department at the instance of the Commission issued circular letter no. 36 (9) PD/ADM/53/CIR/10335 dated June 5, 1963 directing the Heads of the Departments not to issue such orders directly in future.

Transfers within the Panchayat Samiti are made by a Standing Committee on Administration of the Panchayat Samiti.<sup>33</sup> While transferring a person before the expiry of two years of his posting to his circle, the Panchayat Samiti is required to seek prior permission of the District Establishment Committee, which is authorised to make intra-district transfers.<sup>34</sup> As mentioned earlier, the Selection Commission is empowered to effect transfers outside the district.<sup>35</sup> The Act and the rules did not originally have any provision authorising the Government to effect transfers of persons serving in the Rajasthan Panchayat Samitis and Zila Parishads Services. By introducing an amendment in the Act, in January 1966, the Government has taken in its hand supreme power of transferring these employees.<sup>36</sup> This amendment has helped the Government to check unreasonable transfers, to make transfers which the Government deems essential and bring coordination in different training programmes and transfers.

#### (iv) Other Functions

In addition, the Commission performed some functions on *ad hoc* basis from time to time. Though essential, these functions are extra-constitutional.<sup>37</sup> They are categorised as follows:

- (a) Absorption of employees
- (b) Advisory function

#### (a) Absorption of Employees

In September 1963, the posts of Compost Inspectors, Fieldmen and Gram Sewikas were abolished. In order to absorb the persons, thus rendered surplus, Rules 22-B and 22-C of the Rajasthan Panchayat Samitis and Zila Parishads Service Rules, 1959, were framed after consulting the Commission.<sup>38</sup> The Inspectors were to be selected and absorbed as Village Level Workers (Selection Grade). Fieldmen and Gram Sewikas were already members of the Rajasthan Panchayat Samitis and Zila Parishad Service and they were to be absorbed as

<sup>33</sup> The Rajasthan Panchayat Samitis and Zila Parishads Act, 1959, Section 86, Sub-section 9.

<sup>34</sup> *Ibid.*

<sup>35</sup> *Ibid.*

<sup>36</sup> Rajasthan Gazette (Extraordinary) January 22, 1966 reads as follows: "(9A) Notwithstanding anything contained in sub-section (9) the State Government may transfer any member of the Service from one Panchayat Samiti to another Panchayat Samiti whether within the same district or outside it and may also stay the operation of or cancel any order or transfer made under Sub-section (9) or the rules made thereunder."

<sup>37</sup> These functions are called extra-constitutional because they have not been described in the Act and the rules.

<sup>38</sup> *Vide* First Report on the Working of the Commission, 1963, pp. 6-7.



Village Level Workers and Lady Teachers respectively in accordance with the procedure laid down in the above mentioned rules. After scrutinizing the cases, the Commission issued allotment orders for the absorption of the surplus hands mostly in the Panchayat Samitis where the scheme for implementation of the Government decision of having one Village Level Worker for each Gram Panchayat was introduced.<sup>39</sup> Till December 1963, the total number of Compost Inspectors so absorbed as Village Level Workers was 114 and Fieldmen 188 and 179 Gram Sewikas had been absorbed as Lady Teachers.

In June 1967, the Government of Rajasthan abolished 765 posts of Gram Sewaks and 100 posts of Project Operators. In July 1967, the Government abolished 15 Artificial Insemination Centres and in October 1967, 50 posts of Lower Division Clerks from various Panchayat Samitis. This resulted in many posts becoming surplus.

Under the Rajasthan Panchayat Samitis and Zila Parishads Service Rules, 1959, the Commission is empowered to absorb the employees in other districts after receiving a list from the Government.<sup>40</sup> Under the provision, the Government of Rajasthan gave a list containing names of 228 Gram Sewaks, 6 Project Operators, 8 Stockmen, and 8 Lower Division Clerks. Out of 228 surplus Gram Sewaks, 218 were absorbed in newly created posts of Group Panchayat Secretaries and 10 were absorbed in the same district, where they became surplus, as after some time some posts of Gram Sewaks had become vacant there. Six surplus Projector Operators were absorbed in various Panchayat Samitis. Out of 8 surplus Stockmen, 7 were absorbed in different districts and 1, who had become surplus from Ajmer district, was absorbed in Ajmer itself since a post of Stockman was vacant there. Out of 8 Lower Division Clerks, five were absorbed in different districts till December 1967. Thirteen Gram Sewaks had become surplus in 1968. They were absorbed in the same years. One tractor Driver was also absorbed who had become surplus in 1968.

### (b) *Advisory Function*

This function of the Commission has not been specifically described in the rules as Union Public Service Commission's advisory function to the Government has been separately mentioned in the Constitution of India.<sup>41</sup> For various amendments in the Rajasthan Panchayat Samitis and Zila Parishads Service Rules, 1959, and the framing

<sup>39</sup> *Vide* First Report on the Working of the Commission, 1963, pp. 6-7.

<sup>40</sup> *Vide* Rule 22(c) of the Rajasthan Panchayat Samitis and Zila Parishads Act, 1959.

<sup>41</sup> M.P. Sharma, *Public Administration in Theory and Practice*, 1962, pp. 323-24.

of the Rajasthan Panchayat Samitis and Zila Parishads (District Establishment Committee) Rules 1961 and the Rajasthan Panchayat Samitis and Zila Parishads (Punishment and Appeal) Rules, 1961, the Commission was consulted and its comments were approved by the government.<sup>42</sup>

#### IV

##### FINANCES OF THE COMMISSION

The study of the financial administration of the organisation can let us know the magnitude of operations of the organisation.

##### *Income*

The Commission has no income except the fee charged for the application forms.

The Commission prescribed a form of application for direct recruitment under Rule 16 of the Rajasthan Panchayat Samitis and Zila Parishads Service Rules, and the price of the form was fixed at 50 paise. Since a large number of applications for posts advertised by the Commission belonged to rural areas, the Commission supplied the application forms to all 26 Zila Parishad offices with instructions to the Zila Parishads Secretaries selling the forms to maintain accounts for their sale, and to deposit the proceeds in the Treasury. Table 8 indicates yearwise sale of these application forms.

TABLE 8  
SALE OF APPLICATION FORMS

<i>Year (s)</i>	<i>No. Sold</i>	<i>Cost</i>
1959-60	8,600	Rs. 4,300.00
1960-61	13,689	Rs. 6,844.50
1961-62	20,254	Rs. 10,127.00
1962-63	41,968	Rs. 20,984.00
1964	16,600	Rs. 18,300.00
1965	22,769	Rs. 13,385.50
1966	27,143	Rs. 13,571.00
1967	22,942	Rs. 11,471.00
1.1.1968—31.3.1968	3,559	Rs. 1,779.50
1.4.1968—31.3.1969	21,583	Rs. 10,791.50
1969-70	27,120	Rs. 13,560.00

Source: The reports on the Working of the Commission.

<sup>42</sup> The First Report on the Working of the Commission, 1963, pp. 10-11.

*Expenditure*

A lumpsum grant of Rs. 26,600 was sanctioned to the Commission for the year 1959-60. The details of expenditure for the subsequent years are given in Table 9.

TABLE 9  
EXPENDITURE ON VARIOUS HEADS

<i>Year (s)</i>	<i>Pay of officers Rs.</i>	<i>Pay of establish- ment Rs.</i>	<i>Allowan- ces and Honoraria Rs.</i>	<i>Other charges Rs.</i>	<i>Total Rs.</i>
1960-61	28,886	21,527	22,365	13,923	86,701
1961-62	34,765	23,216	31,110	17,289	1,06,380
1962-63	33,314	34,553	29,601	16,658	1,14,126
1963-64 <sup>1</sup>	20,892	35,910	14,642	8,920	80,365
1964 <sup>2</sup>	27,403	47,737	20,307	16,615	1,12,062
1965 <sup>2</sup>	30,556	39,683	19,848	8,775	98,862
1966 <sup>2</sup>	43,313	48,346	37,428	18,852	1,47,933
1967 <sup>2</sup>	42,518	52,887	43,417	21,660	1,60,482
1968 <sup>2</sup>	16,677	15,080	16,755	11,853	60,365
1968-69	47,099	62,686	67,114	24,460	2,01,359
1969-70	76,036	78,867	86,546	30,331	2,71,780

SOURCE : The reports on the Working of the Commission.

<sup>1</sup> Up to 31st December 1963.

<sup>2</sup> Calander year.

The lowest expenditure was Rs. 60,365 in 1968 whereas in 1969-70 it was as high as Rs. 2,71,780. Barring a few exceptions, the expenditure has shown a regular upward tendency.

## V

## DISTRICT ESTABLISHMENT COMMITTEES

Under Section 88 of the Rajasthan Panchayat Samitis and Zila Parishads Act 1959, the Selection Commission had to form a District Establishment Committee (DEC) for each district.<sup>43</sup> Each DEC consists of the Pramukh and the Collector of the district concerned as its members and one of the permanent Members of the Commission as the Chairman. The Commission accordingly constituted DEC's for all the districts.<sup>44</sup> The DEC thus acts as an extension of the Commission and functions under the overall direction and supervision of the Commission.

The Secretaries of the Zila Parishads act as *ex officio* Secretaries of these Committees.

The DEC's deal with matters relating to the allotment for initial appointment, promotion and transfer of the members of the Rajasthan Panchayat Samitis and Zila Parishads Services. It also hears appeals against the punishment imposed by the Panchayat Samitis. The Panchayat Samitis are empowered to withhold one increment of the defaulting member (s) of the Panchayat Samitis and Zila Parishads Services. Punishments in excess of this can be imposed by the Panchayat Samitis only with the prior approval of the DEC concerned.<sup>45</sup>

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<sup>43</sup> The Rajasthan Panchayat Samitis and Zila Parishads Act, 1959, pp. 60-61.

<sup>44</sup> The First Report on the Working of the Commission. At present all the 26 districts of Rajasthan have been divided into two-halves and the Chairman acts as the Chairman of the 13 DEC's while the other Member acts as the Chairman of the remaining 13 DEC's.

<sup>45</sup> The Rajasthan Panchayat Samitis and Zila Parishads Act, 1959, pp. 62-63.

## PRINCIPLE OF FAIR COMPARISON, JOB EVALUATION AND THE PAY OF CIVIL SERVANTS—THE BRITISH EXPERIENCE

*B. B. Tandon*

IT is generally believed that, due to three reasons, the need for having a principle of pay in civil service arise. The first reason pointed out is that, outside the civil service, wages and salaries are settled by individual bargains between employer and worker. Secondly, inside the civil service, there is a chain of responsibility while outside a worker is more or less directly responsible to his employer. The third reason is that profit and loss test cannot be applied to the civil service but can be, and is, applied generally elsewhere. But a close examination of these reasons shows that they are unsound. The growth of collective bargaining not only in the industrial field but also for salaried and professional staff suggests that the first reason is no longer valid. Secondly, the organisations with whose work and rates of pay, civil service work and rates of pay can be compared are large organisations whether of a public, semi-public or private character and it would be unwise to assume the distance between the individual worker and his ultimate employer is much greater in the civil service than in most of such organisations. Thirdly, at least in theory, the profit and loss test can be applied to very large and important areas of the civil service. But, now-a-days, there are very extensive areas of employment outside the civil service where the profit and loss test is not in fact applied or at any rate is not regarded as the sole determinant of the organisation's wage and salary policy.

Yet, there are reasons that make it important that civil service pay should be settled in light of principles which will be acceptable as fair both to the staff and to the community as a whole, and that can be applied by successive governments without impairing the non-political nature of the service. Broadly speaking, three reasons can be given for the necessity of having a principle or principles for the civil service. They are firstly, the necessity of maintaining an efficient civil service, secondly, the necessity of maintaining a non-political civil service and thirdly, the state's moral obligation to pay its employees fair rates of pay.

In the year 1929, a Royal Commission on the civil service was appointed to suggest guiding principles for the regulation of rates of

pay of the civil servants. According to the commission, the "true aim" was fairly expressed by the statement of the Joint Consultative Committee that, "the basis of remuneration in the civil service should be such as is sufficient to recruit men appropriate to the particular duties they have to perform and to retain them in service without loss of keenness or efficiency."<sup>1</sup> In short, the pay of civil service should be such as to permit recruitment and retention of an efficient staff. The principle suggested by the Royal Commission came to be known as the Tomlin formula and was accepted by successive governments. However, in the early 1950s' the civil service felt that their pay and conditions were not keeping pace with those in outside industry. And the result was the extensive use of arbitration in the settlement of claims. It led to the appointment of another Royal Commission on the Civil Service in 1953, which came to be known as the Priestley Commission after the name of the chairman of the commission.

The Priestley Commission firstly pointed out the need for one set of principles of pay for the whole service. The Commission said that civil service is a unity in the sense that its several parts share a common purpose and are linked by a sense of belonging to and forming part of one branch of the public service. But they realised that there cannot be one short formula that can by itself solve all wages and salary problems throughout the service. Therefore, they thought of a series of propositions to which varying degrees of emphasis should be given according to the circumstances of each class. They further said that such propositions can be taken together and legitimately called principles of pay for the whole service.

The Priestley Commission rejected the strict "recruitment and retention" principle and suggested instead the principle "an efficient civil service, fairly remunerated". They said that the state is under a categorical obligation to remunerate its employees fairly and any principle which does not recognise it is not adequate. The Commission believed that if rates of pay for civil service are fair, they will probably, over a period of time in most cases, enable the service to recruit and retain efficient staff. But if the rates of pay are such as to recruit and retain efficient staff, they may not necessarily be fair. The analysis of "fairness" in terms solely of recruitment and retention was rejected by the Priestley Commission on the following considerations.

Firstly, people do not join civil service simply for financial considerations; other factors like tradition, family background and sense of vocation play an important role.

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<sup>1</sup> *Report of the Royal (Tomlin) Commission on the Civil Service 1929-31*, (cmd. of 1931), para 307.

Secondly, wastage is not a reliable index of the fairness or unfairness of rates of pay. No doubt wastage is sometimes a symptom but the validity of the wastage test is affected by outside demand for particular skills. In civil service this varies a great deal at different times for different classes.

Thirdly, the process of deterioration arising from a sense of grievance on the part of staff may be a very slow one.

Lastly, during full employment, rates of pay must necessarily be judged by some criterion that supplements or modifies the "recruitment/retention" test.

Therefore, the Priestley Commission thought, "that the end must be stated in rather wider terms. In paragraph 68 we defined it briefly as 'an efficient civil service, fairly remunerated'. We should express it more fully as the maintenance of a civil service recognised as efficient and staffed by members whose remuneration and conditions of service are thought fair both by themselves and by the community they serve. This ideal can in fact never be absolutely achieved, but the aim must be to make an approach to it as closely as possible."<sup>2</sup>

The term "fairly remunerated" was explained in detail by them. According to them, this means that the interest of the community in general, of those responsible for administering of the civil service and of the individual civil servants themselves should be kept in balance. The community must feel that it is getting an efficient service and that it is not paying an excessive price for it. The Heads of Departments must feel that they have sufficient suitable qualified staff to carry out the work. The individual civil servant must feel that his remuneration is fair. The Priestley Commission believed that this can be achieved only if the primary principle of civil service pay is fair in comparison with broadly comparable work, taking into account differences in other conditions of service.

They recognised that there was a secondary principle "internal relativities" that in certain circumstances considerations of relativities between classes and grades within the service would rightly be used to supplement fair comparison, and, might even on occasion be the first consideration.

Discussing the method of applying the principle of fair comparison, the Priestley Commission gave guidance in paragraphs 172 and 173

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<sup>2</sup> *Report of the Royal (Priestley) Commission on the Civil Service, 1953-55* (Cmd. 9613 of 1955), para 95.

on determining the relationship" of a civil service rate of pay to the rate paid for comparable work outside. According to them, the civil service should be a good employer in the sense that it would be among those who pay somewhat above the average.

The government entirely accepted the Royal Commission's recommendations on the principle of civil service pay and methods of applying the principle of fair comparison. The National Staff agreed that fair comparison was a valid and valuable principle in civil service pay negotiations, with certain reservations. One important reservation was that comparison could be fair only where there was a reasonable wide field of comparisons in which to operate; therefore, in cases where absolute parity of conditions outside was not possible, the field of comparison must be flexible and not rigid.

Following this report, the Pay Research Unit was established and a standing committee on the Pay of the Higher Civil Service was also set up. The Priestley Commission also made a number of suggestions on structure. They recommended for example, that the civil service should not lag behind outside employers in improving the attractions and rewards of a scientific and professional career, and that the scope for transferring specialist staff to administrative posts should be carefully considered.

There are three groups into which jobs may be classed for the purpose of comparisons: firstly, jobs which bear a direct and perceptible resemblance to the civil service grade in which the functions, duties and responsibilities are similar; secondly, jobs which bear a little perceptible similar kind although the duties and responsibilities may wholly or partly be of a different kind; thirdly, jobs which bear no perceptible resemblance to the service grade and have no functional similarity.

The application of the principle of fair comparison does not present any difficulty in the case of the first group of jobs. In the second group, job comparison is possible with the help of evaluation of abstract job factors. But in the case of jobs in the third group, the principle of fair comparison cannot be achieved simply on the basis of functional comparison. There, the jobs can only be compared if resort is had to a system of analytical job evaluation based on abstract job factors—known as factor comparison.

The principle suggested by the Priestley Commission was applicable in case of similar functions but it does not give any clearcut



solution for jobs having different functions. Therefore, the problem arose in case of postmen where no direct and clearly acceptable comparison could be made. There are no outside groups of workers who can readily be seen to be employed on work closely comparable to that of postmen.

The Priestley Commission realised the difficulties, but they thought that, even in case of postmen, the application of fair comparison is possible. In paragraph 664, which became a question of controversy and conflict, they said:

"There are a number of affinities between part of the work of most of the grades and work that is done elsewhere. For example, the duties of the postmen consist mainly of collection, delivery and sorting. Many outside workers are employed on duties of the same broad type, though we are not aware of any work containing the precise combination that goes to make up the postman's job. But we think that any such comparisons may well have to be supplemented by more general comparison on the lines indicated by the union of post office workers, namely, by looking at the skill, initiative and responsibility required for the work of these grades and for broadly similar tasks outside the service."

Different interpretations of the above statement by the union of post office workers and the Post Office resulted in conflict between the two. Therefore, a committee on the pay of postmen was appointed in 1964 to rule on the proper interpretation of paragraph 664 of the Priestley Commission insofar it related to the pay of postmen. The Report is known as Armitage Report after the name of its Chairman.

According to the union of post office workers, paragraph 664 should not be interpreted as insisting on job comparison as a factor. In the view of the union, the intention of the Priestley Commission was, in the case of the post office manipulative grades, job comparison on the basis of functional resemblance might have to be supplemented by a general comparison between the pay of the post office grades and the average earnings of broad categories of workers in outside industry, which might cover a variety of skills and responsibility.

On the other hand, the Post Office did not accept that in this paragraph the Royal Commission had in mind the type of "broad band" comparison which the union thought of. According to the Post Office, the Royal Commission's intention in paragraph 664 was to envisage the possibility that in applying fair comparison to the manipulative grades it might be necessary to go rather further along the spectrum of

comparability than in applying fair comparison to other classes and grades: that some element of functional resemblance is necessary for fair comparison, and that comparison would be so far as possible with closely similar work, and, if there are not sufficient comparisons with closely similar work, then it may be necessary to resort to comparisons with work, only broadly similar.

However, the Armitage Committee did not agree to either interpretation, but gave a new interpretation to the paragraph 664. It is desirable to quote the committee.

"They (Priestley Commission) recognised that there were no direct and clear acceptable comparisons for postmen. They saw that, so far as functional resemblance was concerned, fair comparison would have to be based on comparison between one or more parts of the work done by the grade of postmen and outside jobs involving work which was comparable with that part or parts of the postmen's work, rather than comparisons between the whole duties of the postmen's grade and outside jobs, involving a comparable range of duties. They saw that these partial functional job comparisons might well have to be supplemented.

"They said that such comparisons might well have to be supplemented by more general comparison on the lines indicated by the union of post office workers, namely by looking at the skill, initiative and responsibility required for the work of these grades and broadly similar tasks outside the service."<sup>3</sup>

While concluding, the Armitage Committee remarked that factorial comparisons—comparisons based upon similarity of qualities required in the performance of duties, will continue to constitute an important element in the comparisons which are based primarily on functional resemblance, but in the application of the principle of fair comparisons, with little or no basis of functional comparability to supplement the functional comparisons. In short, the Armitage report extended the Priestley principle in the case of the postmen by suggesting the use of factorial comparisons such as skill and initiative required to do a job.

Factorial comparison is a system of analytical job evaluation, based on abstract job factors. Let us now examine job evaluation as a means of applying the principle of fair comparison more widely. The technique of job evaluation has been applied to deal with problems of

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<sup>3</sup> *Committee on The Pay of Postmen 1964*, pp. 18, 19.

comparative equity in wage determination, at the level of the individual firm or plant. Its aim is to provide a means of establishing a wage structure that is acceptable to labour and management, as far as possible, is fair in the sense of ensuring equal pay for jobs demanding equal sacrifices and rewarding properly the greater efforts and hardships involved in some jobs as compared with others.

There are four main types of job evaluation methods, namely the ranking method, the grade or classification method, the factor comparison method, and the point rating method. Here, we will briefly describe the point rating method, as it is the most important method and is widely applied.

The first step in job evaluation is to decide which features of the job are relevant. The features are often grouped under such headings as: (i) Experience and training, (ii) Mental Requirements, (iii) Physical requirements, and (iv) Conditions of work. Under each of these headings, a number of features are specified separately. However, there is no standard classification applicable to all the jobs. What list of features is adopted depends on the kind of jobs to be evaluated.

When the list of features has been drawn up, a maximum of points is assigned to each. Here again there is no standard method of assigning points for each feature. The next step is to inspect the jobs and allocate points to each according to the degree to which it embodies each listed requirement. This is done either by taking each individual job and comparing the job requirements in respect of all the features or by evaluating all the job in terms of the first feature than of the second, and so on. In practice, both methods are used, the latter being employed as a check on the result of the former.

The last step is to convert points into units of money. Firstly, the number of points awarded to each part of the job are set against the present rate for that job. This is conveniently done graphically. Along the horizontal axis the number of points awarded are measured, and along the vertical axis the present hourly earnings. Taking the points awarded for each job and putting it against the present hourly earnings of job, we get a number of points on the graph. Generally, the higher total points go with higher present rates for the job, but many divergences are also noticed. These give rise to disputes and it is the object of job evaluation to remove them by ensuring that if any job contents or requirements are greater than another, the earnings in it will be greater too. This means, raising some hourly rates and lowering others so that all points lie on or about one continuous line.

1 This line can be drawn in various ways but two of them are most important. Firstly, the line of best fit by the method of least squares. This has the advantage of taking all the observations into account, and arriving at the relation that prevails between points and units of money over the field of employment as a whole. The choice of the line will depend on how the points are on the graph: the purpose of line being to trace their central tendency. Secondly, there may be one or two rates which are not going to be altered by the job evaluation but will have to be taken as fixed, either because they have been specially negotiated, or are benchmark jobs generally accepted as basis of comparison by the workers. The task of job evaluation is then to adjust the rates for other jobs so that they fall into their right relation with the fixed rates.

Advocates of job evaluation think that it provides an objective measurement of what is due to one job relatively to another. But this is not true. The list of features is drawn up and the range of points for each feature is decided on subjective basis. Not only this but the degree to which each feature is held to be present in a job is a matter of subjective estimate. But this does not make job evaluation useless. According to Phelps Brown and Wiseman,<sup>4</sup> "If job evaluation works in practice nonetheless, it is because of two safeguards, knowledge from the outset of the association between degrees of particular requirements and higher or lower pay; and the process by which the means of converting points into pence is found, and which brings some very different assignments of ranges of points back to much the same outcome in evaluated rates. Job evaluation can be regarded as a rough and ready form of factor analysis. But the safeguards that ensure its practicability also prevent it from legislating for the wage structure and confine it to adjustment of detail."

The modern economist regards differentials as only the arithmetic by-product of the rates determined job by job. Though he believes that forces of demand and supply determine the rate for each job, he does not neglect joint and composite demand and supply. He also recognises the power of conventional and institutional forces, but he thinks that they work within the limit set by the market.

It is believed that differentials are mainly due to the conventional forces for custom and opinion, together with the power of pressure groups. These forces no doubt affect differentials. But the observed differences between wage structure are more closely connected with the market forces than convention. This basic reason for the existence of

<sup>4</sup> Phelps Brown and Wiseman, "Job Evaluation and The Wage Structure" in *A Course in Applied Economics*, pp. 12, 266.

differentials is the operation of supply and demand. The rate has to be not only high enough to hold a certain number of workers but at the same time low enough to keep the number of jobs open. A shift in demand will mean a move up or down the supply schedule and bring a change in the equilibrium rate for the job.

Job evaluation cannot measure the requirements of jobs in a common unit, nor, even if these requirements could be measured, is there any reason that the rates for job should be proportionate to them. Job evaluation simply studies job requirements and current rates of pay so as to find how far the requirements it lists tend to raise the supply price of labour to a job, and so to bring the current rates for some jobs closer to what they would have been in perfect market. The wage structure established by a particular evaluation will have to change, if there are changes in demand or supply. Job evaluation cannot be done once and for all, but it will have to be carried out afresh from time to time as the conditions change.

The Fulton Committee endorsed the principle of fair comparison as the principle to regulate pay in the Civil Service and made proposals for applying job evaluation as a means of applying the same principle more widely. According to it, the first principle on which the structure of the civil service should be based is "(a) Both the grade of a post and the selection of the man to fill it should be based first and foremost on an evaluation of the job."<sup>5</sup>

The Fulton Committee believed that a unified grading structure would result in a far more effective method of grading and manning jobs and thus promote greater efficiency. This will require careful job evaluation. This should be based on such factors as the "end-result" required, the degree of personal responsibility involved, the importance attaching to the work and the qualifications and experience needed in the holder to achieve the prescribed results. At the same time, the process of job evaluation should take into account the market rate for jobs of similar responsibility outside the service. The system is equally applicable to all types of job. A scientific job in a research establishment, high-level case-work in an administrative division, an engineering job, and line-management job in an executive clerical establishment can then all be analysed and ranked within the same grading system.

The existing system of grading and evaluating jobs concentrated on assessing whether the duties were appropriate to a particular level of

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<sup>5</sup> *Report of the Committee (Fulton) on The Civil Service, 1966-68, p. 69.*

a particular class, and not on the end-result of the jobs. The detailed job evaluation system suggested by the Fulton Committee was required to define and measure "end-result" required of each post. An individual's performance can then be judged against this specification and by his actual achievement.



## PROBLEMS RELATING TO THE ADMINISTRATION OF JUSTICE\*

O. P. Motiwal

THE administration of justice, the main task of the judiciary, is today universally a function belonging exclusively to the state. But it has not always been so. In early times the state lacked judicial organs and administration of justice was not regarded as a function of the state. Now judiciary is not only required to settle the individual disputes but they are often required to find out the original intention of the legislature. On certain occasions, if a particular matter is not covered under a law, the judge has to fill up the *Casus Omissus*. It is a sort of judicial legislation which is found in almost all the common law countries which include India also. The judiciary in some countries is often called upon to give its opinion to the Head of the State, on a particular important issue facing the country. The judiciary in some countries can examine the validity of the legislation enacted by the highest legislative authority. In Federal Governments, judges determine the sphere of control of the constituents. In the present century, judiciary is regarded as the custodian and defender of individual's rights as observed by Lord Bryce: "There is no better test of the excellence of a Government than the efficiency of its judicial system for nothing more nearly touches the welfare and security of the average citizens than the feeling that he can rely on the certain and prompt administration of justice."<sup>1</sup> Sidgwick also held similar views when he observed, "In determining a nation's rank in political civilization, no test is more decisive than the degree in which justice, as defined by the law, is actually realised in its judicial administration, both as between one private citizen and another and as between private citizens and members of the Government."<sup>2</sup> "Our Constitution has placed the judiciary as the arbiter between the individual and the society and has armed the superior courts with all necessary means to justice".<sup>3</sup> The power has been used when it is needed and it is hoped that it will be used without fear or favour in future to secure justice to the common man.

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\* Awarded Second Prize in 1971 IIPA Essay Competition.

<sup>1</sup> Bryce, *Modern Democracies*, Vol. 11, 1921, p. 384.

<sup>2</sup> Sidgwick, *Elements of Politics*, p. 431.

<sup>3</sup> Mr. Justice M. Hidayatullah's Introduction to Lajpatrai Memorial Lectures, delivered by A. K. Sen & others, *Justice for the Common Man*, 1964, p. 15.

While dealing with the question, 'What is justice?', Hans Kelson remarked, "No other question has been discussed so passionately; no other question has caused so much precious blood and so many bitter tears to be shed; no other question has been the object of so much intensive thinking by the most illustrious thinkers from Plato to Kant; and yet, this question is today as unanswered as it ever was."<sup>4</sup>

There is no craving more deep-rooted in us than the craving for justice. This fact is proved by the fact that in Shastras, justice has been equated with Dharma. Dharma is the basis of the entire universe *वर्मो विश्वरूप जगतः प्रतिष्ठा*. It is the fundamental law of life. Every school of legal thought has given justice a supreme place. Plato defined justice as a kind of natural harmony and healthy habit of mind. Justinians held that "Justice is the constant and perpetual will to give every man his due." With this view in mind the framers of our Constitution gave 'Justice' the supreme place. The Preamble itself secures social, economic and political justice to the citizens of India. Mr. A.K. Sen, former law Minister of Government of India in this connection observed as follows<sup>5</sup>:

"The framers of our constitution in their collective wisdom realised that no real welfare can come to the people unless a social order based on justice is ushered into being. In order that justice may be ensured, certain essential conditions are absolutely necessary. These are:

- (a) Equality before law;
- (b) Independence of the courts;
- (c) Absence of arbitrary powers; and
- (d) Dignity of the individual.

Unless these four essential conditions are fulfilled, there cannot be any real justice."

#### RECRUITMENT OF JUDGES

##### *Requirements of a Good Judge*

The administration of justice has always been regarded the most pious and important function of the state. In ancient times, the function of the judge was vested in the priest or the king though in the modern

<sup>4</sup> Hans Kelson, *What is Justice*, 1957, p. 1.

<sup>5</sup> A. K. Sen & Others, *Justice for the Common Man*, 1964, p. 19.



world the factor of religion has been removed altogether, the sanctity attached to the office of a judge remains unchanged. Unless laws are interpreted and applied by an upright, honest and impartial person, justice cannot be given to the citizens. "We need judges learned in law, not merely the law in books but, something far more difficult to acquire, the law as applied in action in the courtroom, judges deeply versed in the mysteries of human nature and adept in the discovery of the truth in the discordant testimony of fallible human beings; judges beholden to no man, independent and honest and equally important—believed by all men to be independent and honest."<sup>6</sup> The judges should have a zeal to administer justice based on law to all men and women who have come before them for the purpose. They should have a single aim of preserving individual liberty against all aggression of Government or some other authority while disbursing justice. If judges in a particular judicial system lack these qualities, justice cannot be achieved. In fact, it is difficult to find out judges who possess all these qualities.

#### *Various Methods of Appointments*

The first great problem that arises in any judicial system is the method by which the judges are selected. There are two methods of appointing judges, namely, election and nomination. In Great Britain, the judges are of two kinds, lay and professional; the former are appointed by the Lord Chancellor and the latter by the Prime Minister. In Great Britain, the person making the appointment has no obligation to consult or to obtain confirmation from any other body or person. The Common Law countries have adopted different methods of selection. In the United States, appointments to the federal bench are made by the President but he must obtain the consent of a majority of the Senate and there have been notable cases in which the presidential recommendations were rejected. About three-quarters of the state choose their judges by popular election. In the remainder, judges are appointed—sometimes by the Governor, sometimes by the legislature and in Missouri and California by a combined appointive elective method involving initial appointment by the Governor and re-election after a fixed period by the voters. France and Germany have adopted the English system of recruitment for judicial personnel. The Swiss system more or less resembles the American. The judges of the highest federal court are elected by the federal legislature, and in the Cantons, there is every variation from appointment by the executive to direct election by popular vote. In Spain, executive appointment prevails but the minister is assisted in his choice by a

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<sup>6</sup> Arthur T. Vanderbilt, *The Challenge of Law Reform*, 1955, p. 11.

council, whose verdict is intended to have considerable weight in the decision.

Harold J. Laski observed that "of all the methods of appointment that of election by the people at large is without exception the worst".<sup>7</sup> The system of executive appointment is really useful if it is carried out in a really responsible way without fear or favour. So far as the original appointment is concerned, it provides a notable safeguard against favouritism. The system of legislative confirmation prevents bad appointments by compelling the executive to take account of what public opinion may say when the choice is made known to the public. It has some drawbacks as well. It may tend to inject purely partisan considerations into the process of confirmation. Some time back President Nixon suffered the humiliation of his nominee Harold Carswell to a judgeship of the U.S. Supreme Court being rejected by the Senate and this has been hailed by the New York Times as 'a triumph of constitutional responsibility over political partisanship'. The charges against judge Harold Carswell were that he was a mediocre judge. His judgments had been overruled again and again—that he was a supporter of segregation and was persistently rude to Negro lawyers. An interesting question on this rejection arose—whether a judge whose integrity has been questioned and whose nomination had been rejected on the grounds of financial malpractices can continue to serve as a judge. Recently in our Lok Sabha there was some talk of impeaching two Supreme Court judges who sat on the bench which heard the Bank Nationalisation Case and who were said to hold some shares in some banks which had been nationalised. But the learned judges in fact did disclose before they sat on the bench that they held some minor shares in some of the banks and, if there was any objection on that score, they would not sit on the bench. The Attorney-General on behalf of the Government assured their lordships that there was no objection. That ought to have ended the matter and there was no occasion for creating a row in parliament.

*A priori*, the case against the popular election of judges would seem to be unanswerable especially where the term of office is short. The qualities which go to make a good judge are rarely appreciated by a vast and amorphous body like an electorate.

The implicit lesson of all the experience of these countries seems to be the desirability of executive appointment of high judicial personnel, subject to control by a committee consisting of jurists and not politicians.

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<sup>7</sup> Harold J. Laski, *Grammar of Politics*, p. 545.

The Committee should be small in size and should be allowed to continue for a fairly long time and it should not be changed due to change in the Government. Laski held similar views. As such he suggested that judicial appointments should be made 'on the recommendation of the Minister of Justice with the consent of a standing committee of the judges, which would represent all sides of their work'.<sup>8</sup>

### *Appointment of Supreme Court Judges*

Having entrusted the heavy responsibility on the Supreme Court of being a custodian of the liberties of the citizens, the members of the Constituent Assembly were very cautious in ensuring the high standard of selection of the judges of this temple of justice. They discussed the various provisions relating to this court in great detail and with special interest as is evident from the debates themselves.

Since the establishment of the Supreme Court, all its judges, with the exception of one, have been appointed from the bench, though some of them had been practising lawyers before their elevation to the bench. This exception<sup>9</sup> was in the case of Mr. Justice S. M. Sikri, who was the Advocate-General of Punjab and had earned a great reputation in the field of law and advocacy. He has lived up to his reputation. However, in spite of a clear provision in the Constitution, not a single jurist has been appointed a Supreme Court Judge.

The American Constitution does not lay down any qualifications for the appointment of judges in the Supreme Court.<sup>10</sup>

The President can even appoint a person who had no legal background. If judicial experience had been a prerequisite, most of the eminent judges, such as Marshall, Story, Taney, Miller, Bradley, Hughes, Brandies, Stones, Black Frankfurter, Jackson and Warren, would not have found a place on the bench of the Supreme Court in U.S.A. Justice Frankfurter was Law Professor at the Harvard University before his appointment to the Supreme Court. If one reads his decisions, one is struck by his ability and great learning of law. Chief Justice Hughes before he was selected for appointment to the bench had held the office of Governor of New York and was at one time a candidate for

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<sup>8</sup> Harold J. Laski, *Grammar of Politics*, p. 548.

<sup>9</sup> Took office on February 3, 1964.

<sup>10</sup> Section 2 of Article II of the American Constitution simply provides: "He (President) shall nominate, and by and with the advice and consent, of the Senate, shall appoint Ambassadors, other Public Ministers and Consuls, judges of the Supreme Court...."

Presidentship. Justice Hugo L. Black, Harold H. Burton and Sherman Minton served as United States Senators before they were appointed to the Court. Even Chief Justice Warren, who had been a Senator and Governor of California for about eleven long years, had no judicial background at the time of his appointment.

The Italian Constitution<sup>11</sup> has prescribed that the judges of the Constitutional Court should be selected from among judges, University professors of law and the lawyers. In Panama<sup>12</sup> too, professors of law have been made eligible for appointment as judges of the Supreme Court of Justice under Article 166 of the Constitution.

In England, no qualification has been prescribed for the post of the Lord High Chancellor under any law<sup>13</sup> but in practice the Sovereign appoints to this high office a person recommended by the Prime Minister from amongst the members of the Bench or such members of the Bar who hold or have held the office of Attorney-General or Solicitor-General. But on numerous occasions, persons having no judicial background have occupied this post, such as Lord Haldane from 1912 to 1915, Lord Sankey from 1929 to 1935, Lord Maughan from 1938 to 1939, Lord Sunards in 1951.

In U.S.S.R. judges of the Supreme Court are elected and no qualification has been prescribed for their appointment and every effort is made to recruit them from among the communists. The judges of the Supreme Court are not required to be judges of lower courts or members of the bar.

It is not understood what considerations have stood in the way of appointment of jurists as Supreme Court Judges in India, in spite of the fact that they have been made eligible for appointment under the Constitution by Article 124(3)(c). It appears all the more surprising in the background of the debates in the Constituent Assembly on the subject referred to above.

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<sup>11</sup> Article 135 "The judges of the Constitutional Court are selected from judges, even if retired, of the superior, ordinary and administrative jurisdiction, from University professors of law and from lawyers who have practised their profession for twenty years..."

<sup>12</sup> Article 166 of the Constitution of Panama provides as follows:

"In order to be magistrate of the Supreme Court of Justice, it is required; (a) ... (b) ... (c) ... (d) ... (e) to have completed a ten year term, during which he has practised the profession of law or performed the duties of magistrate, attorney general of the nation, attorney of a superior tribunal, circuit judge, or professor of law in an official educational establishment."

<sup>13</sup> *Halsbury's Laws of England*, Third Ed., Vol. 7, p. 367.

It is high time to make use of the provision in Article 124(3)(c) of the Constitution, which has been lying otiose.

### *Appointment of High Court Judges*

Article 217 of our Constitution provides a machinery for the appointment of High Court Judges. It lays down that the President shall appoint High Court Judges after consultation with the Chief Justice of India, the Governor of the State and Chief Justice of that Court. The Law Commission of India<sup>14</sup> has, however, observed that, in certain appointments, Government of India appointed judges against the recommendations of the Chief Justice. A Chief Justice deposed before the Commission that during his discussions with the Chief Minister of the State over the selection of candidates for the High Court Judgeship, he found that political and communal considerations did affect the mind of the executive. In order to avoid such considerations, I will propose that the Chief Justice and the Chief Minister may have a discussion about the candidates to be recommended for the High Court Judgeship to Government of India and efforts should be made to make unanimous recommendations. It may also be laid down that it should not be open to the Chief Minister to propose a nominee of his own. If he disagrees with the Chief Justice, he may be requested to suggest other names and if no accord is reached between the two, the Governor may send the two recommendations to the Government of India for their consideration.

It may be emphasised that the choice of judges must fall only on the most competent persons available at the Bar or in the service. Merit and character should not be permitted to be affected in any manner whatsoever by regional, sectarian, communal or any other extraneous considerations.

It has been felt during the last 20 years that the best talents of the Bar do not accept the judgeship of High Court due to their lucrative practice. The Law Commission in this connection recommended that a solution of this problem can be found in selecting judges from the rising juniors of the Bar.

### *The State Judiciary*

In all the states of India, initial recruitment of judicial personnel of the State Service is made through the State Public Service Commissions

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<sup>14</sup> The Law Commission of India, *14th Report*, Vol I, p. 73.

either on the basis of a written examination followed by a *viva* or only on the result of a *viva voce* test. In this way, the Public Service Commission has been entrusted with the very important duty of selecting judges but the members of some of the Commissions are not such as to command confidence as is clear from the following observations of the Law Commission<sup>15</sup>:

“We are constrained to state that the personnel of these Public Service Commissions in some of the States was not such as could inspire confidence from the point of view of either efficiency or of impartiality. There appears to be little doubt that some of the State appointments to these commissions are made not on considerations of merit but on grounds of party and political affiliations. The evidence given by members of the Public Service Commission in some of the States does create the feeling that they do not deserve to be in the responsible posts they occupy.”

In order to ensure impartiality in the selections, the State Commissions generally invite a High Court Judge to participate in the *viva voce* test. In this connection I will suggest that recruitment to the judicial cadre should be given exclusively to the High Courts. In some States, members of the Higher Judicial Service are recruited by the High Court. If they could conduct one examination, the other examination could also be conducted by them. It may also be pointed out here that an interview is not a proper method of selecting persons for the judiciary. The Law Commission while agreeing with the following observations of the Civil Justice Committee Report has suggested a written examination for the recruitment of Munsifs:<sup>16</sup>

“An examination should be held to test the candidate’s practical acquaintance with law and procedure with special reference to his ability to draft pleadings, appreciate evidence and write judgments.”

Some States have reserved a certain percentage of the posts at the lowest rank of the judiciary for persons working in the ministerial staff of the courts and the Government. I will suggest that similar reservation should be made in all the States in order to give an opportunity to the talented persons who could not be selected within the prescribed age due to certain reasons. It is possible that there might be persons having

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<sup>15</sup> Law Commission of India, *Fourteenth Report*, 1965, p. 171.

<sup>16</sup> *Ibid*, p. 175.

a better concept of law and procedure working in the law departments or courts than those selected as munsifs.

It will not be out of place to suggest that there should be some training given to munsifs before they begin handling cases. Members of IAS and other Central Services and State Executive and Public Cadres are required to undergo a training before they do regular work. Similarly, persons selected for the State Judicial Service should be given practical training of the working of the courts and the application of laws in different types of cases. It has often been seen that during their initial stage of service, the Munsifs are required to depend on their munsarims or Peshkars. This dependence could be avoided if the training is imparted to them.

Higher Judicial Services all over India are manned by the persons promoted from the State Judicial Service Class II and directly recruited persons who are generally about one-third of the total strength of the whole cadre. The idea of having an All India Judicial Service has been in the air for the last several years but it has not materialised so far. It has been seen that a vast number of law graduates offer law in the examinations for the administrative services and they show their ability in the subject. I will suggest that the All India Judicial Service may be created and its incumbents may be taken from the IAS and other Central Services examinations' candidates. It may be recalled that some ICS officers were diverted to the judicial service. Persons recruited to All India Judicial Service could be posted as Civil and Sessions Judges in the States and persons of State Judicial Service could be promoted to All India Services just as PCS officers are promoted to IAS. Detailed rules could be framed for the purpose.

Regarding inefficiency, Shri T. R. Misra, a former Judge of Allahabad High Court, in his note of dissent to the Report of the U.P. Judicial Reforms Committee has observed:<sup>17</sup>

"The leniency with which confirmations and promotions are now made, tends to make many judicial officers slack and inefficient. They do not exert themselves and try to improve, which they would if they found that bad work would be punished and good work would be rewarded. Almost as a matter of course every Munsif whether efficient or otherwise is confirmed, is certified fit to cross the efficiency bar, is promoted as Civil Judge and in nine cases out of ten as Civil and Sessions Judge and even as District and Sessions Judge. The few who are passed over in the

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<sup>17</sup> *Report of the U. P. Judicial Reforms Committee*, Vol. I, 1952, pp. 130-132.



first instance are promoted in the second or third chance. It is overlooked that the rules about the efficiency bar have been expressly enacted to stop the inefficient and to promote only the efficient, and that the posts of Sessions and Civil Judge and District and Sessions Judge are selection posts to which promotion should be made on the ground not of seniority but of outstanding merit....

"The desired end can be achieved only if the High Court becomes strict and makes it plain to presiding Judges that inefficiency and slackness will not be tolerated, that good work will be recognised and rewarded and bad work will be censored and punished, that they must have due regard for public convenience in handling their cases and should be firm and fearless in dealing with those who try to obstruct and delay justice....

"Only those officers should be promoted as District and Sessions Judges who are of outstanding ability and are known to be strong and competent enough to be able to guide and supervise the subordinate judicial officers."

#### INJUSTICE TO JUDGES

It has been felt for a long time that the remuneration given to judges is not sufficient considering their onerous duties and the high standard of skill required in their work. Work in the courts has increased tremendously because of frenzied legislative activity and torrential flow of laws emanating every day. The problem gained momentum when in July 1966 Mr. H. R. Gokhale, the present Minister for Law in the Union Cabinet, resigned from the Judgeship of the Bombay High Court which he had held for about two years as a protest against the deteriorating conditions of the pecuniary returns of the service and hoped that the authorities concerned would be alive to the changing conditions necessitating changes in their real earnings.

The salaries of Chief Justice and Judge of the Federal Court were fixed at Rs 7000 and Rs. 5500 respectively.<sup>18</sup> The Constitution, however, reduced the salaries of the judges of the Supreme Court, which replaced the Federal Court with greater jurisdiction and power, at Rs. 5000 and Rs. 4000 respectively. The position in other countries is quite contrary. The pay of the Chief Justice of the Supreme Court of America was raised from \$ 20,000 to \$ 25,000 in 1946 and the pay of the judges was brought to the level of the Chief Justice from \$ 14,500.

<sup>18</sup> Government of India (Federal Court) Order 1937,



In 1953, the salaries of Lord Chancellor, the Lord Chief Justice and other judges also were raised in England.

There are three grounds for the revision of the salary of the High Court Judges. Firstly, the salary of the High Court Judges in the year 1861 and thereafter up to February 26, 1950 was and continued to be Rs. 4,000 p.m. when the purchasing capacity of a rupee was much higher than today. Secondly, in order to insulate the judges against falling prey to the temptations of corruption and for discharging their duties with dignity, they must be given adequate pecuniary rewards which should be more than what they get at present. Thirdly, in order to attract good talent from the bar, it is necessary that the salary of the High Court Judges should be quite attractive.

It is significant that while the pay of the employees of all other categories has gone up considerably since the turn of the century, the judges alone have suffered a monstrous cut in pay.

Dr. B. R. Ambedkar had clearly stated in the Constituent Assembly that the terms and conditions for the High Court Judges were unsatisfactory and unattractive when he observed:

“The provisions that we are making for our judiciary are not, from the point of view of the persons holding the office, of a very satisfactory character.”<sup>19</sup>

The Law Commission also raised this question. The following observations of a retired Chief Justice before the Commission are worth repeating here:<sup>20</sup>

“The judges’ salary is wholly unattractive. Not only is the amount far smaller than what the practitioner can easily earn at the Bar, but it is also inadequate for maintaining a decent standard of living and discharging one’s obligations to one’s children as regards their education and marriage.”

Sometime back, the salaries of the Chief Secretaries of States had been raised considerably and in certain States including Maharashtra, the salary of the Chief Secretary is Rs. 4000 per month which is higher than that of a High Court Judge. This position seems to be somewhat unsatisfactory. Justice Gokhale while resigning from judgeship had warned the government that, if the salary of judges was not raised, the

<sup>19</sup> C. A. D., Vol VIII, p. 679.

<sup>20</sup> Law Commission of India, *XIV Report*, Vol. I, p. 82.

constitutional guarantee relating to the salaries of judges almost became illusory.<sup>21</sup>

I would suggest that if our Constitution cannot be amended to raise their salary, other amenities like free residence, car allowance, free electricity, etc. may be granted to them through central legislation.

The present conditions of service are not consistent with the position which the office of a judge imposes on him and which he is expected to maintain. The people for whom doors of the court are always open have realised the grave peril inherent in the present situation.

“The unique position of the judiciary as the guardian of the rights of the common man is one for the common men to uphold for he must counter any move to lower the prestige of the judiciary.”<sup>22</sup>

Recently, Shri Gokhale declared that the service conditions of the High Court Judges are under the consideration of government and some useful results are expected.<sup>23</sup>

The pay scales of the State Judicial Services are also not satisfactory. The starting salary and pay scale of these services varies from state to state. The minimum starting salary ranges between Rs. 200 in Bihar and Rs. 350 in U.P. The maximum of the scale in Mysore is Rs. 500, while it is Rs. 950 in U.P. There is equally striking disparity in the scales of pay of subordinate judges. In my view, it is desirable that officers doing exactly the same work and having same qualifications should as far as possible, be paid the same remuneration for similar work in different States. In fact, there is no justification for diverse pay scales for the state judiciary.

#### INDEPENDENT AND IMPARTIAL JUDICIARY

In order to ensure that the concept of equality, generality and impartiality is maintained, the independence of the person called on to make a decision is an essential *sine qua non*.<sup>24</sup> For this reason, the independence of judiciary has been guaranteed in almost all the democracies. Even the Russian Constitution<sup>25</sup> declares that Russian Judges will be independent and will be subject to Soviet Law only.

<sup>21</sup> Mr. H. J. Gokhale's statement on his resignation from High Court Judgeship.

<sup>22</sup> A.K. Sen and others, *Justice for the Common Man*, 1964, p. 15.

<sup>23</sup> *The Pioneer*, dated August 23, 1971.

<sup>24</sup> Mr. Justice P. Jagmohan Reddy, *Quest of Justice*, 1969, p. 79.

<sup>25</sup> Article 112 of U.S.S.R. Constitution.

Rudolf Van Jhering, the eminent German jurist, while enumerating the qualities of a good judge, observed that 'he must have the necessary firmness of will and moral courage to maintain the law without being led astray by considerations of any kind, by hate or friendship, sympathy or fear'.

Bryce emphasised the impartiality and honesty of a judge in the following words:<sup>26</sup>

"If the law be dishonestly administered, the salt has lost its flavour; if it be weakly or fitfully enforced, the guarantees of order fail, for it is more by the certainty than by the severity of punishment that offenders are repressed. If the lamp of justice goes out in darkness, how great is that darkness."

The independence and impartiality of the judiciary depends upon a number of factors, namely the method of appointment of judges, security of tenure and salary. The separation of judiciary from the executive also ensures independence of judges. Let us see how far these factors are available to make our judiciary independent and impartial.

As discussed already the appointment of judges by the executive with the help of jurists has been found to be the best method. The independence of the judiciary is supposed to be best secured under such a method because in that case the appointments would generally be made not on party or sectional considerations but on the appreciation of the qualities of a judge. The Higher Indian Judiciary is appointed by the President of India while the subordinate judges are appointed by the Governor and, in both the cases, they take the advice of judges. Security of tenure has been conferred by the Constitution on the judges of the Supreme Court and the High Court.<sup>27</sup>

They cannot be removed from office except on charges of misbehaviour or incapacity.<sup>28</sup> Parliament has been debarred from framing a law which may vary their privileges, allowances, leave and pension, etc. to their disadvantage.<sup>29</sup> The conduct of a judge relating to his official functions cannot be discussed in Parliament or State Legislatures.<sup>30</sup> Their salary and allowances are a charge upon the consolidated fund of

<sup>26</sup> Bryce, *Modern Democracies*, Vol. II, p. 384.

<sup>27</sup> Constitution of India Articles 124 (2) & 217(1)

<sup>28</sup> *Ibid.*, Articles 124 (4) and 217 (1)(b).

<sup>29</sup> *Ibid.*, Articles 125(2) and 221(2)

<sup>30</sup> *Ibid.*, Articles 121 and 211.

India.<sup>31</sup> The Judges of the Supreme Court cannot be brought before any Court of India.

In a democracy like India where stability of the courts and of all the departments of government rests upon the approval of the people, it is peculiarly essential that the system for establishing and dispensing justice be developed to a high point of efficiency and so maintained that the public shall have absolute confidence in the integrity and impartiality of its administration.<sup>32</sup>

#### DELAYED JUSTICE

Nothing is so frustrating to the common man as finding that, after he has suffered a grievance or a wrong, it takes years to get justice from the courts. It has rightly been said that justice delayed is justice denied. Delays add to the cost of the litigation in addition to mental worries. Justice should not only be swift but it should be cheap also. In a democracy which is based on the Rule of Law, the courts are looked upon as protectors of the rights of the common man. If the common man finds that he is unable to obtain redress quickly and cheaply, he will naturally lose faith in the judiciary. By the end of 1970, there were more than 153,400 cases pending for more than two years in the Supreme Court and the High Courts.<sup>33</sup> The need of speedy trial in a criminal case was realised in America and it was given a constitutional guarantee by the sixth amendment to the Constitution of United States. In the absence of a speedy trial, the accused suffers two disadvantages. Firstly, a delay creates the possibility that witnesses will disappear, memories will fade and the motivation of the prosecution will subside.<sup>34</sup> Secondly, a delay may result in 'undue and oppressive incarceration prior to trial... anxiety and concern accompanying public accusation' and increases the possibility that the ability of an accused to defend himself will be impaired.<sup>35</sup>

The Law Commission has observed, "Chief causes of delay are the laws of civil and criminal procedure which, it has been said, are cumbrous, wasteful and time-consuming".<sup>36</sup> In the High Courts, there

<sup>31</sup> Constitution of India, Articles 112(2) and 202 (3)(d).

<sup>32</sup> Trumbull, William M., *Materials on the Lawyer's Professional Responsibility*, 1957, p. 373.

<sup>33</sup> *The Sunday Standard*, August 1, 1971. Mr. H. R. Gokhale, Union Law Minister, recently said in Kanpur that Calcutta High Court topped the list of arrears with about 46,000 cases and the next was Allahabad High Court with about 40,000 cases, *The Pioneer*, dated August 22, 1971.

<sup>34</sup> Ponzi vs Fessenden 258 U. S. 254, 264.

<sup>35</sup> United States vs Ewell 383 U. S. 116, 120.

<sup>36</sup> Law Commission of India, *XVI Report*, Vol. I, p. 262

is a spate of cases relating to constitutional issues. The growing spate of economic legislation since independence is partly responsible for a burgeoning of litigation.

The absence of witnesses, absence of counsel, adjournments, crowded cause lists, absence of a system of day-to-day hearing and delay in the delivery of judgements are all causes which lead to delays in criminal cases also.

Inadequacy of magisterial strength has been largely responsible for the delays. The pressure of work on the magistracy has very largely contributed to providing opportunities to the ministerial staff attached to these courts to indulge in corrupt practices including the taking of illegal gratification for performing or refraining from performing their just duties. "The largest amount of delay, harassment and corruption appears to centre round the release of prisoners on bail."<sup>37</sup>

On the civil side of litigation, some of the rules of procedure have very often been found to provide unscrupulous parties loopholes through which they could bring about, if nothing else, delay in the progress of a case. Some of the rules relating to the service of processes, issue of certified copies, inspection of records and execution of decrees appear to have contributed to delays, harassment and corruption. The cumbersomeness of the procedure followed in the Government Departments makes for inordinate delays in cases where the Government is a party. The Union Law Minister, Mr. Gokhale, who had been a High Court Judge himself held the view that the whole procedure of administration of Justice was defective and steps would be taken to simplify the present procedural arrangement.<sup>38</sup>

### *Remedy*

I would suggest that the provisions relating to these matters in the Criminal Procedure Code and the Civil Procedure Code should be suitably amended in order to avoid unnecessary delays. It has been seen that counsels for the parties often utilize delaying tactics by submitting frivolous objections or filing appeals and revisions in the higher court, against interlocutory orders of the court, to provide some benefit to their client. I would submit that advocates should not adopt such tactics since they belong to a noble profession and it is their duty to help the court in reaching truth and justice. If they intentionally delay the

<sup>37</sup> *Report of the Committee for Investigation of Causes of Corruption in Subordinate Courts in U.P.*, 1963, p. 37.

<sup>38</sup> *The Pioneer*, dated August 22, 1971.

justice, they cannot claim to be worshippers of the Goddess of Justice. There is need for increasing the number of judges in the High Courts as well as the lower courts. If the district judges are allowed to hear appeals in cases involving amounts upto Rs. 50,000, the arrears in the High Court would come down at once. Special courts for special types of cases may be established in order to reduce the number of cases in the High Courts or the lower courts. Mobile courts can be effective to dispose of petty matters.

In Madras, there are definite time limits fixed within which various classes of judicial proceedings are expected to be disposed of.

The Law Commission has suggested that "litigation originating in the munsif's court ought to be disposed of within one year in the trial court, within six months in the district appellate court and within one year in second appeal in the High Court. In an ideal sense, therefore, such a suit should reach final decision within two and a half or at the most three years but not more."<sup>39</sup> I would further suggest that if any judge takes more time than fixed for the purpose he should record in writing the reasons for the same.

In West Bengal, in order to prevent delays in hearing arguments and the delivery of judgements, the subordinate civil courts have to submit a monthly statement showing the cases in which arguments and judgements were pending for over one month and the dates on which the arguments were heard and judgements delivered. A careful examination of such returns can have a check over the delay on the part of the presiding officers of the court. A thorough periodical inspection of the work of subordinate courts by District Judges and a High Court Judge can also eliminate delay. I am of the opinion that arrears of High Court cases can be minimised if the cases involving similar law points are grouped together and are taken up by a division bench at the same time. All the parties may put their case simultaneously. Such cases could be disposed of by a single common judgement.

### LEGAL AID

Free legal assistance to persons of limited means has existed at least from the thirteenth century in a few courts of England. This scheme was being run by an organisation called 'Poor Man's Lawyer'.<sup>40</sup> On the basis of the recommendations of Rushcliffe Committee of 1945, Legal Aid and Advice Act<sup>41</sup> was enacted by the British Parliament in

<sup>39</sup> Law Commission of India, *XVI Report*, Vol. I, p. 258.

<sup>40</sup> C. F. Padfield, *Element of Public Law*, 1968, p. 114.

<sup>41</sup> 12 & 13, Geo., Oct. 1951.

1949. The purpose behind this Act was that no one should be debarred from pursuing a just and reasonable claim or defending a legal right merely on the ground of poverty. The Act provided for free or assisted, representation for all who require it and virtually free legal advice in matters unconnected with court proceedings. A British citizen's right of legal aid was further guaranteed under the Criminal Justice Act 1967. In England, free legal aid is available to those whose disposable income does not exceed £ 250 per year and whose disposable capital is £ 125 or less. Contributory legal aid is given to those with a disposable income which does not exceed £ 700 and whose disposable capital is less than £ 500 or such larger figure as may be prescribed.

Mr. Justice John Passmore Widgery of Britain who was Chairman of the Legal Aid Committee for criminal cases, constituted in 1964, while speaking on legal aid in U.K. at the Law Institute said, "there was in each prison cell a conspicuous notice informing the defendant that he was entitled to legal aid if he wanted it and that he had only to fill in a form to get it. The form is also there attached to the notice." He further told the audience that assistance was available even for appeals also subject to one test: that the appeal was not frivolous. This was decided by a judge of the court of appeal...<sup>42</sup>.

In India, the Bombay Legal Aid Society has been trying to persuade the Government of India since 1945 for a legislation on legal aid. Since it is a State subject, it is for the States to take necessary steps in the matter and the States have been neglecting it due to paucity of funds. The Kerala Government framed Kerala Legal Aid (to the Scheduled Castes and Scheduled Tribes and to the poor) Rules 1957. The Government of Gujarat in 1967 decided to provide legal aid at Government cost in sessions cases to the accused residing in rural areas and having an annual income of less than Rs. 1800. In addition to this legal aid, aid is available in criminal cases in which death sentence has been awarded if the accused is not in a position to engage a lawyer at his cost.

Mr. P.B. Gajendragadkar, former Chief Justice of India, held the view that legal aid to the common man should not be regarded as charity but as an essential social service to strengthen the law and the democratic form of government.<sup>43</sup> Mr. Justice J. C. Shah said that the system of legal aid was 'in a very rudimentary condition'. A major

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<sup>42</sup> *Statesman*, January 9, 1969.

<sup>43</sup> Mr. Gajendragadkar expressed these views at a Seminar held in Bombay on "Law and the Common Man: Problems of Legal Aid". *The Sunday Standard*, April 7, 1968.

complicating factor was the charging of very heavy court fees and no State was prepared to forego the fees and the only way to avoid court fees was to get oneself declared a pauper.

The English Legal Aid system has, however, been criticised. An alternative to the legal aid system in criminal cases which has been put forward is the establishment of public defenders, who would be employed by the State and do nothing else but defend poor prisoners. This system was also criticised on the ground that in principle since both prosecutor and defender were employed by the same master the efficiency of the system was impaired. The defences tended to become perfunctory and impersonal and there was no incentive to cause such lawyers to exert their best efforts.<sup>44</sup>

It is contended that in India also the legal aid to the poor might make people more litigious and increase litigation, that the scheme would be liable to abuse by dishonest and unscrupulous people and the scheme will impose a heavy financial burden on the States.

The Law Commission has recommended that free legal aid to the poor is a service which the modern state and in particular, a welfare state owes to its citizens. The State, therefore, must accept this obligation and make available funds for the same.<sup>45</sup>

#### SEPARATION OF THE JUDICIARY FROM THE EXECUTIVE

Generally, Montesquieu is considered to be the originator of the theory of separation of functions of a State but this is wrong. The political philosophers of India also propounded the theory. The Administration of Justice under Hindu monarchy always remained separate from the executive and generally independent in form and even in spirit.

The framers of the Indian Constitution were so anxious to give effect to the separation of powers that they incorporated it in Article 50 of the Constitution. While this article was being discussed by the Constituent Assembly, some members had suggested that a limit of three years be incorporated in the Article so that all States may carry out the separation within this period. Article 50 prescribes that 'the State shall take steps to separate the judiciary from the executive in the public services of the State'. The execution of the scheme implies two

<sup>44</sup> F. A. R. Bennion, *Tangling with the Law*, 1970, pp. 76-77.

<sup>45</sup> Law Commission of India, *XIV Report*, 1958, p. 599.



consequences: firstly, that a Magistrate or Judge who tries a case must not be in any manner connected with or interested in the prosecution; secondly, that he must not be in direct administrative subordination to any one connected with the prosecution.

The real purpose of the separation of the judiciary from the executive is to ensure the independent functioning of the judiciary, freed of all suspicion of executive influence or control, direct or indirect. It incidentally ensures that officers will devote their time entirely to judicial duties and this fact leads to efficiency in the administration of justice.

It has been seen that since independence a number of welfare schemes have been chalked out and the executive officers are required to execute them which leaves very little time for them to devote to judicial work.

Madras introduced the scheme of separation of the judiciary from the executive by an executive order based on the recommendations of the committee set up for the purpose in 1946. It was at the initial stage introduced only in some districts but gradually the scheme has been extended to the whole of the State.

The State of Bombay introduced the scheme of separation by enacting 'The Bombay Separation of Judicial and Executive Function Act, 1951' which made far-fetched amendments and additions in the Criminal Procedure Code to give effect to the scheme. The Act classified the Magistrates into Judicial and Executive Magistrates.

All Executive magistrates have been kept under the supervision of the District Magistrate while the Judicial Magistrates are under the supervision and control of the Sessions Judge who is under the administrative control of the High Court.

In the State of U.P., the scheme of separation has been introduced by an executive order and not by any legislation. The State Government has appointed judicial officers who have been exclusively assigned the duty to try criminal and revenue cases with no executive powers. Senior Judicial Officers are promoted to the post of Additional District Magistrate (Judicial). The Judicial Officers and ADMs (J) have been placed under the administrative control of the High Court.<sup>46</sup>

The other States which have adopted the scheme of separation are Andhra Pradesh, Kerala, Mysore and some parts of Punjab, Madhya Pradesh, Orissa and Bihar.

<sup>46</sup> G. O. No. P 8690/11-C-54/1961, Sep. 29, 1967.

The Law Commission of the Government of India reviewed the position and recorded its satisfaction about the working of the scheme of Bombay and Madras.<sup>47</sup> It suggested that legislation for bringing about separation should be enacted by Parliament on the model of the Bombay Separation of Judicial and Executive Functions Act but, pending the passing of such legislation, the States which have not so far introduced separation should introduce it as early as possible by executive orders as was done in Madras and U.P.

#### LANGUAGE IN COURTS

If we study Indian history, we find that India has been a confluence of the people of diverse racial and demographic origin which has resulted in multiplicity and variety in the forms of speech in our country.

Broadly speaking, at the lowest courts at the district level, *viz.* Village Panchayats and Civil Criminal and Revenue Courts, regional language was being used even during pre-Independence days and the same is the position today, but in the higher courts English occupies increasingly important position as we go higher up from the Munsiff and Deputy Collector's Courts to the Supreme Court. During the last decade, however, there has been a progressive trend at the middle level of the judiciary, towards displacement of English, particularly in the Hindi States.

Article 343 declares Hindi in Devanagri script to be the official language of the country. Article 348 of the Constitution lays down that so far as the High Courts are concerned, notwithstanding any of the provisions relating to official language of the Union and regional languages, until Parliament by law otherwise provides, all proceedings in every High Court shall be in English. Clause 2 of the Article, however, empowers the Governor to authorise, with the prior consent of the President, the use of Hindi or any other regional language used for any official purpose of State in the proceedings of the High Court. But English is to be continued as the language of the Supreme Court and High Courts until Parliament enacts otherwise. The limit of 15 years under Article 343 is not applicable to the language to be used in the superior courts of the country.

I am of the opinion that regional languages should be used in the High Courts and lower courts of India. The strongest argument in favour of the regional language being adopted as the language of High

<sup>47</sup> Law Commission of India, *14th Report*, 1963, Vol II, p. 853.

Court is that the common man who comes as a litigant to the court must, to the highest possible degree, be enabled to follow the fate of his claims in the court of law. This object can be achieved only if the High Courts deliver their judgements in regional languages.

Article 110 of the Russian Constitution provides that judicial proceedings are to be conducted in the language of the Union Republic, Autonomous Republic, or Autonomous Region; persons not knowing this language get the opportunity of fully acquainting themselves with the material of the case through an interpreter and likewise have the right to use their own language in court. Generally the language in which judgments are delivered up to the level of the Supreme Court of the Union Republic is the regional language. When any case reaches the Supreme Court of U.S.S.R. the judgments and other necessary documents are translated into Russian. The same procedure is being adopted in the Supreme Court and the High Courts in India wherein translations in English are prepared wherever the material happens to be in Hindi or any other regional language.

The adoption of regional languages in law courts upto the High Court has been accepted by the Government of India. A formal announcement was made by the then Law Minister, Mr. P. Govinda Menon in the Rajya Sabha.<sup>48</sup>

It is inconceivable that the Supreme Court of our country may also transact its business in a dozen regional languages of India. Since Hindi is the official language, sooner or later it will replace English in the Supreme Court proceedings. I will not suggest that the Supreme Court should completely switch over to Hindi immediately. The change should be gradual, so that it may not create difficulties to lawyers and judges but they must start doing work in the national language.

The Law Commission of the Government of India recommended<sup>49</sup> that Hindi should be substituted for and take the place of English as the language in which the proceedings of superior courts could be conducted. English should, however, be retained till Hindi has grown sufficiently and developed an adequate legal vocabulary and phraseology. The Commission held the view that for a complete switch over to Hindi it was necessary that students should be taught law in Hindi. Twenty five to thirty years were considered sufficient for a complete change over.

<sup>48</sup> *The Pioneer*, December 12, 1967.

<sup>49</sup> Law Commission of India, *Fourteenth Report*, Vol. I, p. 651.

Mr. Justice K. N. Wanchoo, *ex* Chief Justice of India remarked<sup>50</sup> that he did not see any possibility of Hindi being the official language of the judiciary for at least the next 25 years. The limit fixed by Mr. Wanchoo seems to be quite reasonable. In my opinion, the Supreme Court should be able to switch over to Hindi within this period.

Mr. Justice P.B. Gajendragadkar while addressing a gathering of Rotarians at Hyderabad said<sup>51</sup> that Hindi was the national language of India and it could replace English in the Supreme Court proceedings provided it is properly developed. He however, warned that the use of regional languages in High Courts and Hindi in the Supreme Court was likely to endanger the unity of the country. In my opinion, the fear of disunity is imaginary because in a number of countries we find similar situations, but they stand united. In Switzerland, four languages are spoken and all the four are official languages. In pre-war Czechoslovakia, though there were twelve languages, two were recognised as official languages. In U.S.S.R., 16 languages are spoken but only one language *i.e.* Russian is the official language, but in regional offices the language of the region is officially used. Judicial proceedings in Ukrainian U.S.S.R. are conducted in Ukrainian language. Persons not possessing knowledge of this language have the right of familiarising themselves with the material of the case through interpreters and also have the right to use their own language in the court.<sup>52</sup> In Canada, English as well as French can be used by any person in any pleading or process in any court of law. Article 24 of the Rumanian Constitution authorises judicial authorities of the District and litigants to use the local language of the area. South Africa,<sup>53</sup> Mongolian Peoples' Republic and China allow regional languages in their courts.

The Official Language Commission has recommended two prerequisites for a change over of the medium of language in the field of law:

- (i) Preparation of a standard legal lexicon, and
- (ii) Re-enactment of Central and State statute books in Hindi.

The Government of India have already constituted an Official Language (Legislative) Commission to translate the Central Acts into

<sup>50</sup> *Statesman*, December 21, 1967.

<sup>51</sup> *Northern India Patrika*, October 22, 1967.

<sup>52</sup> Article 90 of the Constitution (basic law) of the Ukrainian Soviet Socialist Republic.

<sup>53</sup> Article 137 of the Constitution of South Africa.

<sup>54</sup> Article 77 of the Constitution of People's Republic of China.

Hindi and other regional languages and to prepare a standard glossary of legal terms.

Government have started publishing 'Uchchatama Nyayalya Nirnaya Patrika' which in Hindi contains judgements of the Supreme Court. In this connection I would suggest that either All India Reporter may be taken over by the Government of India or some other journal started. In this Journal Supreme Court decisions may be published in English as well as in Hindi in parallel columns and judgments of the various High Courts be printed in the language of the region concerned and in Hindi in two separate volumes and their price should be kept low, so that persons of even ordinary means could subscribe for them. The Official Language (Legislative) Commission has already got the necessary staff for translation into regional languages and as such the work of translating English judgements into Hindi can be done by them very efficiently specially when they will be finishing their main task translating the Central Acts.

#### JUDGES FOR NON-JUDICIAL WORK

It has become a tendency of the Central and State Governments to appoint working Supreme or High Court Judges as Commissions of inquiry to investigate and report on various incidents, etc. This affects the working of courts from which these judges are drawn. It results in the accumulation of arrears. It is necessary that these judges should not be disturbed from their routine work of deciding cases in the courts. I do not plead that the judges should not be appointed on commissions of enquiry but I would suggest that instead of sitting judges for enquiry purposes retired High Court or Supreme Court Judges should be employed. While Rating and Valuation Bill of 1928, which contained a provision about consultations with the High Court by the Minister of Health on questions of rating and valuations which arise before the minister, was being discussed by the House of Lords, Lord Marriyale pleaded that judges should not be employed for non-judicial work. The following observations of Lord Marriyale are worth quoting here:<sup>55</sup>

"The business of a judge is regulated by his oath of office. It is to determine according to law, without fear, favour, or affection, questions which arise between His Majesty's subjects and either the Throne or the Executive. That is the function of the judges. Why should the judges be brought in by this side-door to help the Executive to carry on their business, to replace the Law Officers?

<sup>55</sup> 78 HL Debs., 5 Sec. 763.

Lord Kesson also expressed similar views. He remarked as follows:<sup>56</sup>

"I did my best on the Second Reading to proclaim the reasons of my opposition to this very grave and unparalleled system, which it is sought to set up, of trying to rope in the Judiciary to the help of the Executive in their administrative capacity. Anything more dangerous or more unfair to the subject I cannot conceive."

In this connection, I would propose that a bureau of Commissions of Enquiry may be established by the Government of India which should maintain a list of retired Supreme Court and High Court judges who could be entrusted with the work of enquiries. When the Government of India and the State Governments desire to appoint a commission of enquiry, they may request the bureau to provide a High Court or Supreme Court judge for the purpose. This bureau could coordinate the working of different commissions of India and avoid the establishment of duplicate commissions to enquire into similar problems. The bureau could suggest the name of a judge to make enquiries in a particular state where he did not hold office as a judge. Such an arrangement is bound to win the confidence of the people.

#### CORRUPTION IN COURTS

It is a sad fact that corruption has its roots and ramifications in the society as a whole. In its widest connotation, corruption includes improper or selfish exercise of power and influence attached to a public office. In this sense corruption may manifest itself in various forms and actions. Fortunately, comparatively speaking, our judiciary is free from corruption at higher levels. In this regard corruption in courts does not present a complete study of its cause and remedies and the problem itself though widely prevalent is not of wider dimensions.

The corruption prevalent in courts is the most common form of corruption as defined in Sec. 161 of I.P.C.<sup>57</sup> The corruption in the judiciary does not reach up to the high level. But the court staff itself has

<sup>56</sup> 70 HL Debs, 5 Sec. 803

<sup>57</sup> Sec. 161 DPC whoever, being or expecting to be a public servant, accepts or obtains, or agrees to accept, or attempts to obtain from one person, for himself or for any other person, any gratification whatever other than legal remuneration, as a motive or reward for doing or forbearing to do any official act or for showing or forbearing to show, in the exercise of his official functions, favour or disfavour to any person or for rendering or attempting to render any service or disservice to any person, with the Central or State Government or Parliament or the Legislature of the State or with any public servants as such...

been found to be corrupt in many cases. This is borne out by the reports of the committees<sup>58</sup> set up for judicial reforms. But it is also a fact as observed by the committee headed by Justice B. Mukherji<sup>59</sup>, "that the extent of corruption prevalent in courts subordinate was not as large as loose talk made it to appear".

Most of the cases of corruption of the court are mere cases of tipping namely small amount of money given, more or less voluntarily in the hope of getting work done expeditiously or to earn the goodwill of petty officials who have to deal with the case in its early stages. It is necessary to draw a distinction between this kind of gratification paid and the payment made with the object of either getting an unfair advantage over an adversary or paid because the petty official refuses to render the service to which the giver of the gratification is legally entitled without paying the gratification. It is this second type of gratification which puts the general public to harassment and which needs to be rooted out. I am not an apologist for tipping which should be discouraged. The question is of differentiation between the two and laying emphasis on eradication of the latter.

One of the foremost causes of corruption in courts is the delay in the disposal of the cases. The procedures and practices in courts and for that matter in working of all government offices are cumbersome and dilatory. The anxiety to avoid delay has encouraged the practice of making payments to some petty officials for speedier disposal. As observed by the Santhanam committee<sup>60</sup>, "Certain sections of the staff concerned are reported to have got into the habit of not doing any thing in the matter till they are suitably persuaded". This is true in regard to court cases. Besides being a most objectionable corrupt practice, this custom has become the most serious cause of delay and inefficiency.

The following are the spots where corruption exists in a court:

- (1) Most of delays and corruption exists in the *Nazarat* which deals with processes and the copying department. The officer who holds charge of *Nazarat* should see that processes are issued from the office to the *Nazarat* and thence to the process servers without avoidable loss of time. The register of processes should be frequently examined

<sup>58</sup> Report of Judicial Reforms Committee, Vol. I, 1952 p. 27 and Report of the Committee for Investigation of Causes of Corruption in Subordinate Courts in U.P., 1963.

<sup>59</sup> Ibid., p. 12.

<sup>60</sup> Report of the Committee on Prevention of Corruption, 1964, pp. 9-10.

and disciplinary action should be taken against the process server who does not give a good account of himself.

- (2) Delay in issuing copies is an important factor leading to corruption and delay in the disposal of cases. Mostly it is on account of inadequacy of staff and typewriters in the copying department. This should be remedied.
- (3) Applications for refund of money are inordinately delayed and only when parties spend money, they get refund vouchers within a reasonable time. In order to obviate corruption in this matter, a register may be opened in every court of applications for refund with necessary columns. The Presiding Officer should insist that the report from the *Nazarat* about the availability of the money should come within three days. Thereafter, the voucher should be prepared and delivered within a specified time.
- (4) The present practice in the subordinate courts is that all petitions are filed in the office, and then the office takes its own time in putting up the files. The parties are naturally anxious to see that their applications are put up before the Presiding Officer at the earliest and this leads to corruption. Petitions should, as a general rule, be received in open court, usually at the commencement of the sitting of the court every day. The majority of the petitions can be disposed of the same day and if any reference is required, it can be taken up the next day.

These are some of the practical suggestions the adoption of which may improve matters. But no amount of improvement or change in the law or rules of procedure can bring about expeditious and smooth disposal of work unless the Presiding Officer of the Court maintains proper control over his diary, staff and other surroundings. He should be vigilant and should be fully conversant with the various rules and orders. Only then he will not be misled by his subordinates and will not allow them to have an upper hand.

Inadequacy of the emoluments of the subordinate staff and bad working conditions also to a large extent are responsible for loss of integrity. As the Mukherje Committee observed,<sup>61</sup> "There can be no two opinions on the question that in order to root out corruption even partially, it is necessary that the staff of the various courts should

<sup>61</sup> Report of the Committee for Investigation of Causes of Corruption in Subordinate Courts in U.P., 1963, p. 127.



be paid a living wage so that economic pressure may not compel them to supplement their meagre means by accepting illegal gratification."

It is also not possible to root out corruption from a particular department when it is in other departments. A concerted drive against corruption therefore on all fronts, a mobilisation of public opinion against corruption and a genuine attempt to root out corruption on all fronts and from all government departments is essential. It is also essential that honesty and efficiency should be acknowledged and rewarded.

An unscrupulous lawyer or to be more specific the lawyer's clerks, are also responsible in promoting and sustaining the system of graft in courts. This was noticed by the Mukherje committee which observed as follows:<sup>62</sup>

"The evidence, which we heard, indicated that there were some lawyers in practically every district of the State who instead of being a bulwark against any corruption in court assisted in the growth of such corruption."

The Committee further added:<sup>63</sup>

"Evidence that was before the committee showed that most of the prevailing corruption in subordinate courts in a sense could be traced to the lawyer's corrupt clerk. A great amount of the 'greasing of the palm' that went on in the courts below was done at the instance and through the agency of the lawyer's clerk."

The problem of the corrupt lawyer and lawyer's corrupt clerks should be tackled by the Bar itself.

#### ROLE OF LAWYERS

'A lawyer is essentially a man, who by reason of his study of law and of representing the case of his client and meeting the case of the opponent, develops within himself a balanced judgement, an appreciation of the view point of others, courage, independence and a strong desire to uphold the right. In order to establish his reputation of being a good lawyer he has to give proof of his honesty, integrity and character, win confidence not only of his clients but of the judges and society as well. A legal mind is to be developed to function logically, analytically

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<sup>62</sup> Report of the Committee for Investigation of Causes of Corruption in Subordinate Courts in U.P., p. 182.

<sup>63</sup> *Ibid*, p. 184

and vigorously and this can be achieved only by concentrated and devoted study and service of law. The profession of a lawyer is honourable but it will be honourable so long as the lawyer keeps it as such by his ability, integrity and high moral standard. Some people hold the view that in the legal profession in certain case the lawyer has to deviate from the highest principles of rectitude. In this connection the following remarks of Dr. Samuel Johnson might make the position clear:<sup>64</sup>

Boswell records:

“I asked him (Dr. Johnson) whether as a moralist he did not think the practice of the law in some degree hurt the nice feelings of honesty.”

Johnson: “Why, no, Sir, if you act properly. You are not to deceive your clients with false representations of your opinion: You are not to tell lies to a judge.”

Boswell: “But what do you think of supporting a cause which you know to be bad?”

Johnson: “Sir, how do you know a cause to be bad till the Judge determines it?”

The lawyers should not become hirelings of a trade, and in search of money should not drag down the ethical standards of profession. When a lawyer creates confidence and attracts work, money will come to him automatically. The lawyer is part and parcel of the court—the temple of justice and as such owes a duty to it as much as to his client. Similarly judges should fully utilise the services of the lawyers and to encourage them in the discharge of their onerous responsibilities. Lawyers should be accurate in giving facts to the court and they should not mislead the court.

The American Bar Association has adopted canons of professional ethics the preamble of which says “the future of the Republic, to a great extent, depends upon our maintenance of justice, pure and unsullied. It cannot be so maintained unless the conduct and the motives of the members of our profession are such as to merit the approval of all just men”. I propose that a similar code of conduct may be framed for Indian Advocates as well.<sup>65</sup>

<sup>64</sup> Mr. Justice P. Jaganmohan Reddy, *Quest of Justice*, 1969, p. 109.

<sup>65</sup> These canons were adopted by the American Bar Association at its thirty first Annual Meeting at Washington on August 27, 1908.

## NEED OF LEGAL RESEARCH

When India achieved independence, the Indian Law and the jurists were not able to play the role they ought to have played. The politician, the economist and the engineer were expected to remake the society. The law was to assist in the form of public law and administrative law, but private law claimed only a small goal in social change. But the position has now changed. Law is now being looked upon as a form of social engineering that plays a creative role in the building of a good society. It has now been accepted that, in a progressive and dynamic society, the laws of the land cannot remain stagnant. They must grow with the change in ideas of social justice and the requirements of the community to raise the economic and social level of every individual. With the increase in the activity of the State, consequent upon its determination to promote national prosperity and welfare in every branch of life, legislation in various fields has grown both in nature and size.

In those countries, where the law is still the instrument of further progress, large organisations have grown up for legal research. In Japan, the Legal Training and Research Institute, which was established immediately after the Second World War, is a centre of professional training for the practice of law. Some universities of America, Great Britain and Canada are also constantly engaged in legal research work.

In the field of law, in India, it is only the Indian Law Institute and the Institute of Constitutional and Parliamentary Studies, New Delhi who have taken up a number of research projects. The principal objects of these Institutes are to cultivate the science of law, to promote advanced studies and research in law and its administration or justice in a manner suitable to the needs of the people.

Sometime back there was a clash between the judiciary and the legislature. I think that there should be a wise restraint and imaginative understanding on the part of the three organs of the Government so as to avoid friction and clashes which threaten the democratic functioning of our Government. The executive and legislature must accept the authority of the judiciary in legal matters and the judiciary must avoid a showdown with the legislature. Similarly the judiciary should resist from becoming a supervisory body above the Government or the legislature and should avoid interference in the day-to-day administration. It should act as an active guardian of law, watching over democratic legality among the people and the Government and other institutions in public life. Judiciary has a great role to play in the grand plan of remaking India specially when there is instability in the politics of the

Government and irresponsible elements in the social life of the community are raising their heads, when moral values are failing all around us and integrity of character is becoming rarer in public life. The judiciary can stand out as a stabilising force, championing the dynamic principle of the Constitution. No civilised nation can survive as a democratic society without an independent and impartial judiciary.

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# **PUBLIC PERSONNEL ADMINISTRATION : A STUDY OF ITS ORIGIN AND GROWTH IN MYSORE STATE UPTO 1967\***

*K. V. Viswanathaiah*

THE origin of Public Personnel Administration in Mysore State can be traced so far back as the beginning of the 17th century when the State of Mysore came to be consolidated as a result of the efforts of Raja Wodeyar (1578-1617) who claimed descent from the Yadavas of Gujarat.<sup>1</sup> However, the real beginning of Public Personnel Administration in the State was only in 1881, when the administration of the State was transferred by the British Government to Maharaja Chamarajendra Wodeyar. Broadly speaking, the history of the growth of Public Personnel Administration in the State of Mysore from the time of Raja Wodeyar (1578-1617) down to 1967 for purposes of our study can be roughly divided into the following seven periods: (I) Pre-1881 Period; (II) 1881-1906; (III) 1906-1909; (IV) 1909-1941; (V) 1941-1950; (VI) 1950-1956; and (VII) 1956-1967.

## **I. Pre-1881 Period**

This period may be further divided into the following sub-periods: (i) Upto 1799; (ii) 1799-1812; (iii) 1812-1831; and (iv) 1831-1881. Beginning with the administration of Raja Wodeyar (1578-1617) the Public Personnel Administration in the State of Mysore may be said to be the personal system to the Maharaja who ran it with the advice of the Dalvoy line of the military commanders. This system continued upto the time of Krishnaraja Wodeyar I (1714-1732) who had no children. Succession disputes arose after his death, and the military commanders assumed the decisive role in the

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\* Awarded Second Prize in 1971 IIPA Essay Competition.

<sup>1</sup> Mr. C. Hayavadana Rao who has written three volumes on History of Mysore under the Wodeyar Dynasty of Kings has mentioned in Vol. I (1399-1704.) that Mysore came to be established in 1399 by one of the ancestors of the present Wodeyar Dynasty. Of the early Rulers of the Dynasty, very little is known down to Bettada Chamaraja Wodeyar (1513-1553.) Afterwards, Timmaraja Wodeyar II (1553-1572), Bola Chamaraja Wodeyar (1572-1576.) and Bettada Devaraja Wodeyar (1576-1578), it appears, ruled the territory. It was Raja Wodeyar who deposed Bettada Devaraja Wodeyar and took over the reigns of administration of the territory of Mysore. He consolidated the territory.

administrative system of the State to such an extent as to make the Maharaja just a puppet in their hands. Krishna Raja II (1734-1766) was unhappy over this kind of control. As such, he placed Haidar Ali (1722-1782) a distinguished military General of the Mysore army in charge with a view to counteracting the interference of the Dalvoys. Haidar Ali, with the support and the blessings of the Maharaja succeeded in destroying the influence of the Dalvoys but in the process became himself the virtual ruler. The administration was conducted in the name of the Maharaja. All persons appointed for running the administration of the State were those in whom Haidar Ali had trust and who were considered as efficient and able by him. The passing away of Krishna Raja II further enhanced the personal power and prestige of Haidar Ali in the administrative system because Krishna Raja II was succeeded by his minor son. After the death of Haidar Ali, his son Tippu Sultan became the acknowledged Chief of Mysore and he took care to appoint only those persons whom he actually trusted and whom he considered as efficient and faithful. This position continued till the closing years of the eighteenth century when in the famous siege of Seringapatam of 1799, Tippu Sultan was killed and the whole kingdom of Mysore virtually fell into the hands of the British.

The eighteenth century saw the beginning of a new era in the history of Mysore. After the death of Tippu the Britishers restored the kingdom once again to the Hindus and Krishna Raja Wodeyar III was made the Ruler of Mysore though he was a child of three years. The State virtually came under the supervision and direct protection of the British. They ushered in a new administrative system in the State which continued upto 1812 when Krishna Raja Wodeyar III became a major and took the reins of administration in his own hands. Between 1799 and 1812 the key functionary in the administrative system of Mysore was Dewan Purnaiah, whom the Britishers had appointed. He was given full powers and he actually controlled the administration. He straightened up the entire administrative system. He appointed young, trustworthy, loyal persons from selected families—mostly Brahmins. But those whom he considered personally as efficient alone were appointed. He also arranged to give them some initial training after their induction and before they were given independent charge of the office. He put them even to a gruelling test. The superior officers who supervised their work were asked to send confidential reports about their work and character. He personally took care to peruse the whole thing. He straightened up even the finances of the State. However, after Krishna Raja Wodeyar III (1812-1831) assumed charge, there arose differences between the Maharaja and Dewan Purnaiah and consequently, the latter resigned his office.

The next two decades (1812-1831) witnessed the personal rule of the Maharaja. There was general deterioration. He made appointments to the various offices on the basis of patronage. There was no screening whatsoever. Whoever brought influence through persons working in the palace, were appointed by the Maharaja. During his reign, nepotism, favouritism and corruption became the order of the day. There was such general deterioration that the Britishers had to interfere openly in 1831 in accordance with the provisions of the Treaty of 1799, to straighten up things. Krishna Raja Wodeyar III was deposed<sup>2</sup> in 1831. There began a new phase in the administrative system of Mysore State. The Britishers had assumed authority and took the responsibility running the administration of the State.

Consequent upon the visit of Lord Dalhousie to Mysore in 1855, a new era began in the history of Mysore administration. During his stay at Mysore, he personally inspected the working of the administrative system. He ordered many reforms. The period between 1856 and 1862 has been described as the "Transition Period", that is the period during which the "Non-Regulatory System" prevailed. The creation of a few new departments like the Education Department, the Public Works Department, the streamlining of district administration, judicial administration and the creation of the post of a Judicial Commissioner, the issuing of rules and orders pertaining to the management of the departments and the public services, etc., took place during this period as a result of the suggestions made by Lord Dalhousie. In other words, the Dalhousie reforms laid the firm foundation for a settled and regulated method of administration in the State. The evolution of the resultant systematic administrative system took sometime and therefore really speaking the "Regulated System" of administration may be said to have begun from 1863.

The most important feature of the last phase (1853-1881) of the Commissioner's Rule in Mysore State was the introduction of a new recruiting system for the public personnel known as the "Attache System". The candidates called "Attaches" were selected from families possessed of historical associations and who had received some

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<sup>2</sup> When the Britishers took over the administration from Krishnaraja Wodeyar III in 1831 for alleged mismanagement, two Officers styled Senior Commissioner and Junior Commissioner were appointed to govern the territory of the Raja. This arrangement continued from 1831 to 1834. In April 1834, the post of the Junior Commissioner was abolished. The Government of the Mysore territory was put in charge of only one Commissioner. See Gazette of India, Mysore State, Mandya District, Bangalore (Printed by the Director of Printing, Stationery and Publications, Bangalore, 1967), Chapter: "Administration by British Commission," pp. 28-36.

education in British schools and whose character and conduct were satisfactory. They used to be put on probation and generally they were appointed to the subordinate ministerial posts and if found fit they used to be appointed to the higher posts. Critics have not been wanting in whose opinion "the Attache System was not a system at all". It cannot be denied that the appointment of "attaches" was made spasmodically and these appointments were completely free from patronage. Still, it was a slight improvement upon the "Non-Regulatory System" of the early phase. The British Commissioner did make his best attempts to recruit able candidates even directly to the State Public Service. The British Commissioner's rule continued nearly for fifty years. In 1881 the Britishers terminated their direct rule and handed over the reins of State administration to the hands of His Highness Chamarajendra Wodeyar Bahadur (1881-1894). During this half-a-century of direct British Rule, there took place many new developments in the State administrative system. Sir Mark Cubbon had laid the foundation of a proper personnel system by organising the administrative system on modern lines based on his personal knowledge and experience of the British administrative system. However, during this period no definite and concrete set of rules guiding the administrative system could be evolved. The personnel running the administration was recruited from amongst the children of the native officers already in the services of the State. In a few cases, children of officers belonging to the Madras Presidency having received even a minimum standard of education at Madras were offered jobs in the State public service. Thus it could be seen that the nature of the administrative system and the personnel recruited to man the various posts in the Mysore State public service was paternalistic and it was based on considerations of birth, heredity and personal patronage. There were no fixed criteria or rules of appointment.

## II. 1881-1906

The rendition of Mysore State to native rule was effected on March 25, 1881 by the installation of Chamarajendra Wodeyar as His Highness the Maharaja of Mysore. From the date of rendition, the Commissioner of Mysore who ruled the State from 1831 to 1881 came to be designated as the Resident of Mysore.

With the assumption of the office by the Maharaja, there opened an entirely new chapter in the history of the State administrative system. The Maharaja besides having received good education at the hands of the British, had also acquired good training in the art of administration. He desired that his State should be administered properly and efficiently and sought to achieve this purpose by recruiting the best talented



educated young men and women with the help of his able Dewans. With a view to secure an efficient personnel to manage the affairs of his State, he took pains to provide educational facilities for his subjects. During his reign as well as those of his successors, this system developed further and it was the result of such praiseworthy efforts only that at the time of the Independence of the country, Mysore State was universally recognised as one of the best administered Princely States of India.

His Highness requested his able Dewan Sir K. Seshadri Iyer to submit a scheme in this connection. Sir K. Seshadri Iyer after carefully studying the problem submitted a scheme to the Maharaja. The objective of the Iyer scheme was to secure well qualified men and women for the higher administrative posts. He had suggested the introduction of the competitive examination to recruit candidates for the State public services. He had also suggested the classification of the services into Upper Subordinate Services and Subordinate Services on the basis of duties and responsibilities and the salary wherever feasible. Appointments carrying a monthly pay of Rs. 40 and above should be called the Upper Subordinate Services. Appointments carrying a pay of less than Rs. 40 but above Rs. 20 should be in the Subordinate Services. Candidates for any post in the Upper Subordinate Services should possess a university degree. However, this qualification could be relaxed at the discretion of the State Government and they could appoint even candidates who had passed the then F.A. Examination of Madras University (analogous to Intermediate Examination at a later date). A pass in the Secondary School Leaving Certificate Examination was sufficient for being appointed to any post in the Subordinate Services. The Government could relax this qualification also if the exigencies of the circumstances demanded and in such cases it could appoint those who had passed the Lower Secondary Examination or who had passed V Standard. He even had suggested the prescription of the age limits for entry into the state public Services. Regarding the introduction of competitive examination to fill up the posts in the Upper Subordinate Services, the State Government should adopt this if it found it feasible. Regarding the filling up of the posts in the Subordinate Services, Sir K. Seshadri Iyer had suggested "Direct Recruitment by Interview" and not the competitive examination. Thus, one could see that the Iyer scheme was far ahead of his times. Sir K. Seshadri Iyer preferred only competent men to man the public services. His Highness, the Maharaja of Mysore accepted the scheme and implemented it in 1891. The Government had to face a lot of difficulties in securing proper personnel. However, a beginning was made. During those days English was the medium of examination and instruction in the educational institutions, for imparting secondary and higher education.

Such educational institutions did not exist in the State of Mysore. When the scheme was implemented, almost all the recruits to the State public service came from the Madras Presidency. The majority of them were graduates. Thus, the Tamilians came to occupy all important posts but the State Government never bothered about it and it did not make any distinction whatsoever. On the other hand, it welcomed them all. But this development subsequently led to resentment among the inhabitants of the native State of Mysore. They started urging for their proper representation in the State public services. Being confronted with the increasing popular demands for relaxation in the standards set for recruitment to the public service by the Iyer Scheme, the Government of the day was compelled to modify the original provisions of the Iyer scheme.

According to the modified scheme, the system of competitive examination was kept in abeyance. The Government decided to give due representation to the people of the native State. It declared that henceforth they would be recruited from the open market provided they possess the necessary qualifications. Such recruits who would be taken to the public service after an interview would be called "Probationers". A special committee or an *ad hoc* Committee would select the "Probationers". The probationers so selected would be appointed only when His Highness the Maharaja of Mysore would approve of the same. In those days besides the qualifications and fitness for the post, in the selection of probationers, considerations of social and family status and political allegiance played a part. This modified scheme continued in operation till 1906. From the available records during this period it is gathered that only a few persons were recruited to the Upper Subordinate Services. Though the figures regarding recruitments to the other Services are not available yet it can be presumed that they also must not have been very encouraging. Thus, the Iyer scheme even in its modified form failed in fulfilling the aspirations of His Highness the Maharaja of Mysore who ordered his Dewan of the day, Shri V. P. Madhava Rao, to suggest changes and modifications in the prevailing Scheme.

### III. 1906-1909

Dewan Shri V. P. Madhava Rao was also dissatisfied personally by the way these probationers were recruited to the native State public services. He felt that the efficiency of administration had gone down. The changes and modifications in the prevailing system as effected by him may be summarised as follows: the system of competitive examination kept in abeyance was revived; the rules for the

selection of the eligible candidates as Tahsildars were also slightly modified and revised; rules were also issued defining clearly the principles which should regulate the appointment of revenue and judicial probationers. Other measures introduced by him were (i) issue of revised orders for regulating the appointment and promotion of ministerial officers in the Revenue Department; (ii) introduction of modified rules for the recruitment of suitable hands to the Subordinate Revenue Executive Service; (iii) Classifying the subordinate services into two wings: the Subordinate Executive Service and the Ministerial Establishments. The former comprised the posts of Tahsildars, Shirestedars, Police Inspectors, Teachers, Constables, etc., whereas the posts of Registrars, Clerks, Accountants, etc., were put under the category of Ministerial Establishments; and (iv) issue of suitable rules for recruitment of village accountants. In addition to these, the system of promotion was also introduced from the subordinate services in the Revenue Department. For retrenching unsuitable officers he introduced the screening system periodically.

The competitive examination was also held. None except two Tamil speaking graduates from the Madras Presidency were able to come out successful in the examination and they were admitted to the Upper Subordinate Services.<sup>3</sup> No nomination was made on the family grounds to the Upper Subordinate Services in the State this time. Another competitive examination was conducted in November 1908. Again only two Tamil speaking candidates hailing from Madras were able to pass the examination and they were admitted to the Upper Subordinate Services. The Government promoted four Mysorean officers belonging to the subordinate services to the Upper Subordinate Services (Revenue). Besides, one Mysorean was nominated to the Upper Subordinate Services on family grounds. Thus, altogether hardly seven candidates were able to enter into the Upper Subordinate Services in the year 1908.<sup>4</sup> The third competitive examination was held in November 1909 in which again only two Tamil speaking graduates hailing from Madras came out successful and thereby entered the Upper Subordinate Services. Six Mysoreans belonging to Subordinate Services were promoted to the Upper Subordinate Services. Besides two Mysoreans were nominated on family grounds to the Upper Subordinate Services. In this way, the total number of recruitment to the Upper Subordinate Services made in the year 1909 came to be ten.

<sup>3</sup> *Report of the Administration of Mysore for the year 1906-1907 ending June 30, 1909* (The Government Press, Bangalore, 1909), p. 6.

<sup>4</sup> *Report on the Administration of Mysore for the year 1907-1908 ending June 30, 1909* (The Government Press, Bangalore, 1910), pp. 5-6.

There was no University in the State of Mysore and educational standards of the Mysoreans were not so high as that of the old University of Madras. A few inhabitants of Mysore used to go to study at the University of Madras and obtain degrees but they were unable to come out successful in the competitive examination for recruitment to the Upper Subordinate Services. Only a few of the graduates from Madras could pass these competitive examinations. As such, the State Government had to adopt the following two devices to enable the inhabitants of the State to become the members of the Upper Subordinate Services: (i) Nomination on family considerations, and (ii) promotion from the Subordinate Services to the Upper Subordinate Services. The recruitment to the Subordinate Services was done directly and from amongst the Mysoreans. After a few years of service, the capable men were promoted to Upper Subordinate Services. This scheme had two advantages. It enabled brilliant and capable persons belonging to other States to be recruited to the Upper Subordinate Services. At the same time, it also kept the door open for entrance of the inhabitants of the State by promotion from the Subordinate Services. In this way, this recruitment policy could be said to have been liberal both for the inhabitants of the State as well as for outsiders. An important point to be mentioned in this connection is that only those members of the Subordinate Services who belonged to the Revenue Department were considered for promotion to the Upper Subordinate Services. As the members belonging to the other departments were denied this privilege, the Revenue Department came to be looked upon as the most important Department among all the other departments of the Subordinate Services.

#### IV. 1909-1941.

The year 1909<sup>5</sup> marks the beginning of a new era in the evolution of public services. The educated Mysoreans put pressure upon the Government and urged that the competitive examination should be held periodically and it should be open only to the Mysoreans who had obtained degrees from Madras University or any other University in India. The Government had to yield to public opinion. Dewan T. Anand Rao got the Mysore Civil Service Examination Rules modified in 1911-1912 and the competitive examinations were closed to outsiders. With a view to improve the efficiency of the personnel belonging to the Subordinate Services, he also formally introduced a scheme of training the "Probationers" either directly

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<sup>5</sup> Report on the Administration of Mysore for the year 1909-1910 ending June 30, 1910 (The Government Press, Bangalore, 1911), p. 6.

recruited through nomination or by promotion to the various branches of the Tahsil and District administration. Even then many Mysoreans could not get into the Upper Subordinate Services through competitive examination.

Sir M. Visweswaraiah, the Engineer-Statesman of Mysore who became the Dewan of Mysore rightly realised that the spread of education both general and technical, among the Mysoreans alone could enable them to get into the public services in large numbers. Consequently, he took steps to open up a number of schools and colleges for higher education both for men and women including the establishment of the University of Mysore in 1915. During his regime great progress was made in the field of education. The lower classes who received education began to realise that the Brahmins had taken advantage of the educational facilities provided by the State and they had secured a large number of posts in the public services. Naturally they began to demand that they should be given adequate opportunities to serve the State and they should be given proper representation in the State public services. Unfortunately, there were disturbances and tensions as Sir M. Visweswaraiah preferred to appoint only competent men even from among the Non-Brahmin communities. He did not like to sacrifice efficiency. However, he resigned on this issue.

A seven-man Committee headed by Sir Leslie C. Miller Kt. was appointed by the State Government in August 1918 to examine the problem and to suggest ways and means for giving adequate representation in the public services to all communities in the State. This Committee submitted its report to the Government in July 1919. The State Government after eliciting the opinions of the heads of various departments on this report issued an Order,<sup>6</sup> which defined the term "backward communities" and it came to include all communities except the Brahmins. According to this order the appointment of a person who was not a Mysorean by birth or by domicile shall be permitted only under exceptional circumstances and shall require the previous sanction of the Government in each case. Vacancies available for direct recruitment shall be classified into "Special" or "General" according as they are open to members of backward communities only or to the best candidates available irrespective of communities. The State Government also announced its intention of making provisions of adequate representation of backward communities in the State public services.<sup>7</sup> With a view to collect information regarding the various vacancies occurring in

<sup>6</sup> Government Order No. 1827-80-E.A.G. 308, dated May 16, 1921.

<sup>7</sup> C. Hayavadana Rao (Ed.): *The Mysore Gazetteer*, Vol. II, Part IV (New edition), pp. 2424-3206, The Government Press, Bangalore, 1930, p. 3053.

the several departments and units and to ensure that the rules of recruitment were rigidly applied, a Central Recruitment Board popularly called "the CRB" was constituted by a Government Order<sup>8</sup> as follows: The First Member of the Council to be the Chairman of the CRB— (1) The Revenue Commissioner, (2) The Director of Public Instruction, (3) Inspector General of Police, (4) Chief Secretary to the Government of Mysore, Bangalore, and (5) General Secretary to Government. These were the official members. There were also five non-official members. In addition, one of the Assistant Secretaries to Government was posted by the Government as its Secretary. Though the order spelled out the composition of the Board, nothing was mentioned about its tenure. The Board was given the power to call for returns, statistics and other information relating to recruitment and vacancies in the several offices of the State and all the heads of the departments and officers were asked to comply with their requisitions promptly.<sup>9</sup> The Chairman of the CRB was given the power to invite the heads of all major departments to the meetings of the Board when returns had to be reviewed so that those officers and the others who would be present at the meeting might have a common discussion of the progress of recruitment, work results achieved, difficulties experienced and modifications, if any, in rules, procedures and instructions necessary to secure better results.<sup>10</sup> Another Government order<sup>11</sup> said that whenever any instructions had to be issued to the departmental officers in explanation or furtherance of matters connected with recruitment, the same shall be issued from the Chief Secretariat. The office of the CRB was treated as part and parcel of the General and Revenue Secretariat. It was bifurcated from the General and Revenue Secretariat with effect from November 21, 1927 and became an independent office. The composition and the powers of the CRB remained the same. Certain exceptions were made and these pertained to appointments in the Railway department even here recruitment rules were applied to clerks and typists but not to others<sup>12</sup>, Electrical Department,<sup>13</sup> and technical posts in the Government Press.<sup>14</sup>

The CRB requested the Government soon after its inception to fix the maximum age limits for entry into the service and this was done

<sup>8</sup> Government Order No. 4033/G.M. 93-25-1 dated December 10, 1921.

<sup>9</sup> Government Order No. E.A. 2179-2258-E.A. 30-21-1 dated November 28, 1921.

<sup>10</sup> G. O. No. G. 1277-87 G.M. 97-22-1 dated January 19, 1923.

<sup>11</sup> G. O. No. 1350-1/OE 74-27-1 dated November 21, 1927.

<sup>12</sup> Order No. R.S. dated March 6, 1925.

<sup>13</sup> Order No. E. D. 8 1761-1808 dated November 16, 1925.

<sup>14</sup> Order No. 1717-18 CRB 9-29-1, dated September 21, 1929.



by the Government.<sup>15</sup> At its request another Government order was issued<sup>16</sup> which said that in case of progressive appointments falling within Class IV, the officials of lower pay might be promoted 'seriatim' and the vacancy caused by promotion of the official concerned might be filled by direct recruitment.

The appointments in the Ministerial Services and Executive Services were classified separately for purposes of recruitment.<sup>17</sup> In course of time, more powers were conferred on the CRB. Another significant development relating to the composition of the State public services during this period came to be the fixation of quota for different communities on the basis of their respective population and the requirement of recruitment by the CRB on the basis of the quota so prescribed. Government issued an order which said that 25 per cent of direct recruitment vacancies should be thrown open to all sections of the people and 75 per cent of the remaining vacancies should be reserved to backward communities.<sup>18</sup> In the original order, eighteen communities were listed as backward. The list was revised several times. Anyhow, the revised list and the reservations continued till India became independent. Further, the system of "appointment by nomination" on family grounds was discontinued. Though the policy of appointing "the probationers" continued, yet even in this regard due representation to the different communities in the State public services was made obligatory. The system of promotion from the Subordinate Services to the Upper Subordinate Services hitherto only confined to the Revenue department was extended to the other Government departments also by another Government order.<sup>19</sup>

Whatever steps the Government had taken to satisfy the urge of the unrepresented communities in the State public services, the Government could not satisfy them completely. There was a demand that the Government should examine the practical net results of the concession extended to the backward classes and readily the Government agreed to this. It issued an order relating to this question in January 1940.<sup>20</sup> The most important provision of this order was the creation of a new post of Public Service Commissioner who was asked to study the existing rules of recruitment and to submit recommendations regarding the lines on which recruitment was to be made in future.

<sup>15</sup> Order No. 1827-80-E.A.G. 308 dated May 16, 1921.

<sup>16</sup> Order No. E. A. 2093-172 E. A. G. 14-21-7 dated November 28, 1921, E. 3020-60/CRB 7-25-3 dated December 10, 1925.

<sup>17</sup> Order No. 6396-6495 CRB 4-28-6 dated February 12, 1929.

<sup>18</sup> Government Order No. 6-105-CRB/1-34-1 dated July 3, 1934.

<sup>19</sup> Government Order No. E.A. 2093-172 E.A.G. 14-21-7, dated November 28, 1921.

<sup>20</sup> Government Order No. 3685-3735 C.B 103-39-1 dated January 19, 1940.

Shri A. C. Gupta, Retired Accountant-General, Government of India, was appointed as the Public Service Commissioner. He was known for his integrity and efficiency. He assumed charge of this office on February 5, 1940. Meanwhile, the post of the Chairman of the CRB had fallen vacant. A question arose whether CRB itself should be continued in view of the fact that a Public Service Commissioner was already appointed. Moreover, the Public Service Commissioner required time to study the rules of recruitment and other things relating to personnel administration. Shri A. C. Gupta was also appointed as the Chairman of the CRB and the latter was allowed to continue for another six months.<sup>21</sup> So Shri A. C. Gupta submitted the report in this capacity as Public Service Commissioner and the CRB was wound up with effect from August 4, 1940. Shri A.C. Gupta continued to be the Public Service Commissioner. The passing of this order and the step taken accordingly may be said to be the closing event of the period from 1909-1940.

#### V. 1941-1950

The creation of the post of Public Service Commissioner and vesting in his office all the powers to handle personnel matters may be said to be the beginning of a novel experiment in the history of public personnel administration in Mysore State. This system amounted to empowering a single individual holding the post of a Public Service Commissioner to handle all matters and problems relating to public services. Presumably this was done with a view to enabling him to take quick decisions and also to fixing the responsibility on a single person. The Public Service Commissioner alone was asked to give expert advice in matters of public services and conditions of service whenever the Government needed such advice.

During this period the final approval of the appointments made by the Public Service Commissioner was vested in His Highness the Maharaja of Mysore. Similarly, His Highness had reserved to himself the power to remove or to suspend officers of and above the grade of Assistant Commissioners. Similar powers regarding other posts were vested in the various heads of the departments in the State as per the Civil Services Classification, Control and Appeal Rules. The State Government had more or less copied the C.C.A. Rules issued by the Secretary of State for India on May 27, 1930 vide Notification No. HD F.9/3/0-Ests. dated June 19, 1930. The State Government also issued orders laying down the conditions of service of all the Government employees. The policy of appointing the probationers was also continued but while appointing such probationers care was

<sup>21</sup> Government Order No. 4351-450 C.R.B. 61-39-1 dated February 5, 1940.



taken to give due representation to different backward classes. Further during 1932-33, the State Government had taken steps to designate the officers belonging to Upper Subordinate Services as Gazetted Officers. This designation was allowed to continue during 1941-1950. The classification of Non-Gazetted Officers, viz., officers who did not belong to the Upper Subordinate Services, into two wings, namely, the Subordinate Executive Services (also known as Non-Ministerial Services) and the Ministerial Services was allowed to continue till 1943. After 1943, the Subordinate Executive Services came to be designated as Executive Subordinate Superior Services by the State Government in its Administration Report. With this change in terminology, the erstwhile classification system continued up to 1950.

Regarding recruitment to the non-gazetted posts, the appointments used to be made from the Approved Lists by the appointing authorities. The preparation of the Approved Lists of candidates for appointments to several kinds of classes of appointments had come into vogue during the last quarter of the year 1920. However, the term Approved Lists was not used but instead the term Eligibility Lists was used. Actually all applicants who wanted jobs had to register with the CRB and the CRB used to prepare the eligibility lists pertaining to various departments as per rules of recruitment in force and appointments were made from the eligibility lists as and when vacancies arose. It used to pay adequate attention to due representation for the different communities in the State particularly the backward class communities. The term Approved Lists was used from 1934-35 onwards for non-gazetted posts. Even after the CRB was wound up this work was continued by the Public Service Commissioner and later on by the Public Service Commission up to 1961-62. Thus, the bulk of the non-gazetted posts in the State public services came to be filled up only by this method but subject to rules of recruitment in force from time to time.

Regarding training, both gazetted and non-gazetted officers after their initial recruitment, were given on the job training. The probationary period for the gazetted officers was two years and for the non-gazetted officers, it was one year. They had to pass the prescribed departmental examinations. They were confirmed only then. There was no institutional training except for probationary police sub-inspectors. The posts of patels and shanbagues belonging to the revenue department were hereditary and as such these in turn imparted training to their children who later on assumed their offices and even this was on the job training.

Another thing one notices if one goes through the history of

personnel administration from the point of view of the salary and other emoluments of Government servants is this. The pay was fixed for each post whether it fell under Upper Subordinate Services (*viz.*, gazetted) or Subordinate Services (*viz.*, non-gazetted). Whenever the State Government revised the pay, it did so on a department-wise basis and not for all the employees. This was done as and when deemed necessary, and on demands made in the Representative Assembly and by the head of the department concerned to the Government directly. Thus the history of the pay revision of the public employees in the State of Mysore till 1946 may be said to be more or less the totality of the histories of the pay revisions of the various departments of the Government. For example, a detailed revision of the scales of pay in the district and tahsil establishments of the revenue department was sanctioned in April 1897. A further revision was made in September 1913. The same was again revised in July 1918. Consequent upon the reorganisation of the treasury establishments in 1922, a comprehensive review of the scales of pay of different branches of the revenue department was made by a Special Committee in 1928-29 and on the recommendation of this Committee, orders were passed in August 1929 fixing revised scales of pay which remained in operation till 1947.

This brief history of pay revision in the revenue department goes to prove that the State Government did go on revising the pay whenever there was a demand for it; and, it did so only on a department-wise basis. On the occasion of such orders for pay revision, the reasons given by the Government were that the existing scales were out of date and inadequate in view of the increased cost of living; the changed nature of the work of the Government servants had become more arduous and responsible; it was necessary to improve the efficiency of those already in employment; and it was necessary to attract a better class of recruits. In November 1946, as there was a great agitation in all the establishments for pay revision, the Government of His Highness the Maharaja of Mysore appointed a Committee headed by Rajadharmaprasakta T. Singaravelu Mudaliar to examine this issue and to submit the recommendations to the Government.<sup>22</sup> Some of the Committee's recommendations were accepted but the Government did not sanction House Rent Allowance nor it enhance the Dearness Allowance.

During this period the pay scales of the Government servants belonging to all departments came to be revised. The conditions of service of the Government servants were laid down. The Public Service Commissioner became the sole authority to tender

<sup>22</sup> Government Order No. 2484/2569/C.B. 178/46/1, dated Bangalore, November 27, 1946.

expert advice in personnel matters to the Government. The existing classification system slightly underwent change. The Subordinate Executive Services came to be designated as Executive Subordinate Superior Services. The Government continued the policy of appointing the probationers but it took care to give representation due to backward classes. Appointments to non-gazetted posts were made from the Approved Lists as per the quota fixed for different communities. On the job training became the order of the day and it was given to those who were newly recruited to the public services. It can be seen that on the eve of the independence of the country, the Public Personnel Administration had come to be established on a quite sound footing, though it was a princely State. But there were certain shortcomings. There was no Public Service Commission; there was no institutional training except for superior officers belonging to the police department. The system of training was not proper. The personnel belonging to the State public services were looked upon as the employees of the Maharaja rather than of an impersonal corporate institution. This very picture continued upto the enforcement of the new Constitution of India when on January 26, 1950 the State of Mysore became one of the Part 'B' States comprising the Indian Union.

#### VI. 1950-1956.

During this period the first and the foremost step pertaining to the Public Personnel Administration taken by the Government of Mysore was to make provisions for the State Public Service Commission as envisaged in Article 315 of the Indian Constitution. The State Government in its notification<sup>23</sup> made provision for the constitution of the Public Service Commission in the State. But the Public Service Commission came into existence only on May 18, 1951.<sup>24</sup> The post of the Public Service Commissioner was abolished. The Standing Committee which was attached to the office of the Public Service Commissioner and which used to give him staff assistance was also abolished. Henceforth, all appointments to the public services in the State excluding the state cadre of All-India Services came within the purview of the Public Service Commission. As usual, recruitment was thrown open to all adult citizens in the State including women subject to rules in force. The public services in the State of Mysore in 1950 came to be divided into the following three classes: (1) Gazetted Services, (2) Upper Subordinate Services, and (3) Subordinate Services.<sup>25</sup>

<sup>23</sup> Notification No. L.D. 1088-Legisla. 39-49-1 dated February 16, 1950.

<sup>24</sup> Government Order No. CI. S. 1483/G.E. 31-51-1 dated May 18, 1951.

<sup>25</sup> *Report on the Administration of Mysore for 1955-56* (The Government Press, Bangalore, 1957), p. 204.

The Gazetted Services were further divided into Classes I and II. The newly created second category of Upper Subordinate Services was the creation of an independent class consisting of the erstwhile 'Executive Subordinate Superior Services' which formerly was one of the two wings of the non-gazetted services. As the erstwhile first category of Upper Subordinate Services had been designated as gazetted services, the term Upper Subordinate was applied in the case of the Non-Ministerial Wing of the non-gazetted services. The second wing of the non-gazetted services known as the Ministerial Services was made a separate class namely the third class designated as Subordinate Services. The most important point of distinction between the second and the third classes, namely, the Upper Subordinate and Subordinate Classes, was that the posts falling under the category Upper Subordinate Services were included in the gazetted category whereas those falling under the category of Subordinate Services continued to remain non-gazetted posts. Later on, even the Upper Subordinate Services came to consist of Classes I and II. This very classification system continued upto November 1, 1956 when the new State of Mysore came into existence consequent upon the States Reorganisation.

During this period, the State Government approved a fresh list of backward classes in its order dated May 26, 1951.<sup>26</sup> The Government of India appointed a Backward Classes Commission in 1954 and this Commission submitted a report to the Government in 1955. The Ministry of Home Affairs in the meanwhile requested the State Governments to take steps to secure adequate representation of candidates belonging to Scheduled Castes, Scheduled Tribes and Backward Classes who were educationally and socially backward. The State Government of Mysore issued an order<sup>27</sup> directing that 18 per cent of all vacancies reserved to be filled up by direct recruitment be reserved in favour of Scheduled Castes and Scheduled Tribes. In another order<sup>28</sup> the State Government clarified that this reservation would be applicable to both gazetted and non-gazetted posts in respect of different departmental services. During this period the communities which did not come under Backward or Scheduled Castes or Scheduled Tribes suffered greatly due to this kind of reservation.

Regarding the prescription of age limits for entry into the different services, it varied from time to time. There had been no uniformity about the prescribed age limits even with regard to the important

<sup>26</sup> Government Order No. E. 1696-1775-R & P. S. 30-50-2 dated May 26, 1951.

<sup>27</sup> Government Order No. E. 185-285-R & P.S. 35-54-2 dated April 6, 1955.

<sup>28</sup> Government Order No. E. 16077-177-R & P.S. 35-34-4 dated November 30, 1955.

services of more or less equal power, status, salary, etc. In the case of other services differing in their nature and emoluments and salary, the variations in the prescribed age limits were all the more marked and dissimilar.

With the advent of Indian Independence, the idea of the State had undergone a change. There was a shift in the goals of the State, *viz.*, from *laissez-faire* to welfare. The State tried to improve the material, social, intellectual and even spiritual well-being of its people. It took certain steps in this direction. With the launching of the First Five Year Plan, it laid stress on development in all its aspects. Naturally, this shift in the goals of the State in India affected the State Government and the personnel administration. The State Government took steps to create new departments and to reorient the personnel working in departments dealing with developmental work. It paid attention to education of the masses and to the people's active participation in the affairs of the Government. It also took steps to make the bureaucracy responsible to the public.

However, recruitment to the public services particularly to the gazetted cadres was made by means of selection by interview by the State Public Service Commission. The system of competitive examination was not in vogue. The State Government had tried to hold the first competitive examination as far back as 1943. Actually it held such examination in that year to fill up the posts falling under the category of non-technical ministerial and executive subordinate services but the candidates belonging to backward classes could not enter through this method in sufficient number. Consequently this was abandoned. Even after the advent of Independence, the same opposition from the backward classes continued. As such, performance of the candidates in the interview, his past academic records and his personality were taken into consideration by the Public Service Commission for appointing persons to the gazetted as well as to the non-gazetted cadres. Unfortunately, though the emphasis was laid on development administration and though the Public Service Commission was called upon to select persons who would be suitable in all respects to handle the tasks of development administration, the Commission was helpless and under the exigencies of circumstances it could not do much. It followed the same procedure in matters pertaining to recruitment and the same legacy of the pre-Independence days continued to remain in vogue even in the post-Independence period. Defects and shortcomings of this procedure were highlighted and its substitution by open competitive examination was demanded by those who belonged to other than the Backward Classes. But this was of no avail.

Regarding training, the Sericultural Training School at Channapatna was started by the State Government in 1954. It provided both institutional training and practical training. Only police officers and sericultural officers were provided with institutional training. But with regard to other officers belonging to other departments, there was no such provision. Mostly it consisted of on the job training. They were not given any training in developmental administration nor was there any refresher courses for them.

Regarding promotion, there was provision for the personnel of the State services to get into All India services both under the IAS (Appointment by Promotion) Regulations, 1955 and under the IPS (Appointment by Promotion) Regulations, 1955. The criteria of promotion was suitability and fitness in all respects to hold the posts. It was done purely on the basis of merit. Within the State Civil Services, promotion was mostly done on the basis of seniority. To fill up the top posts, the criterion was seniority-cum-merit.

During this period, an attempt was made to revise the pay scales by setting up a Pay Structure Committee headed by Mr. V. M. Mascarenhas, M.L.A. as its Chairman.<sup>29</sup> The Committee recommended an increased pay structure for all grades of public employees with weightage benefits. Meanwhile, the reorganisation of the State was in its final stages. The Government could not give effect to its recommendations. During this period, more and more educated women got into the public services. However, they could not occupy the major positions in the Public Services.

One finds that upto this period, the Government could not adopt open competition as the general principle of recruitment. To some extent recruitment was based upon competence. Other considerations also entered into the picture while recruiting candidates from backward classes. The system of recruitment came to be intermeshed with the general educational system. The age limits varied from one departmental service to another for positions carrying similar duties and responsibilities. Recruitment for vacancies came to be assembled by the competent authorities annually. An independent Public Service Commission was there to recruit candidates for various positions in the public service. No devices were established to solve the grievances of the employees. The personnel administration was not decentralised. The political neutrality and anonymity was recognised as a general principle to be followed. Restrictions were put on the civil servants whenever

<sup>29</sup> Government Order No. F. 1. (B) 5090-189. Bud. 26-55-1 dated July 20, 1955.



they went out of bounds to solve their grievances. They were prohibited in resorting to strikes.

## VII. 1956-1966

The new Mysore State came into existence on November 1, 1956. It consisted of the ten districts of the old Mysore State, the Chief Commissioner's Province of Coorg, and the nine Kannada speaking districts of the former States of Bombay, Hyderabad and Madras. The personnel also opted out from the erstwhile states to serve the new Mysore State. As a result of this, the need arose to issue uniform rules of recruitment. The recruitment to gazetted posts in the different State services cadres was stopped. No recruitment to gazetted posts was made between 1956-59. Steps were taken to issue new cadre and recruitment rules in respect of all the departmental services. The regulations which were issued during this period to govern the Public Personnel Administration could be broadly classified as follows: (1) Regulations pertaining to Public Service Commission; (2) Cadre and recruitment rules relating to various departmental services; (3) General rules relating to recruitment and training; (4) Regulations governing staff associations and negotiating procedures; and (5) Regulations governing professional standards of conduct. All these rules and regulations by and large streamlined the Public Personnel Administration in the State.

The Classification, Control and Appeal Rules were issued in December 1957.<sup>30</sup> Accordingly, all the posts in the State Public Services came to be divided into four classes: Classes I, II, III and IV. Classes I and II consisted of gazetted posts. Class III consisted of non-gazetted posts. These posts in a departmental service were further divided into "Technical and Ministerial"<sup>31</sup> and "Executive and Ministerial."<sup>32</sup> This classification resulted in the following modifications or alterations in the system prevailing prior to the coming into existence of the new Mysore State. The gazetted services (both Classes I and II) and the Upper Subordinate Services (both Classes I and II) came to be merged. Class I of both the gazetted services and the Upper Subordinate Services were merged together and named as State Civil Services Class I. Similarly, Class II of both gazetted services and of the Upper Subordinate Services were merged together and designated as State Civil Services Class II. Both the two new classes, namely, Classes I and II, continued to be gazetted services as before. The erstwhile Class III services known

<sup>30</sup> Notification No. GAD (O & M) CAR 57 dated Bangalore, December 10, 1957.

<sup>31</sup> The P. W. D. (Engineering) Service Cadre and Recruitment Rules, 1960 Vide G. O. No. GAD 8 GRR 57 dated December 3, 1960.

<sup>32</sup> The Mysore Information Department Services Cadre and Recruitment Rules, vide G. O. No. GAD 7 GRR 57, dated July 7, 1958.

as "Subordinate Services" were divided into two separate classes, namely, Classes III and IV. The basis of this new classification was the nature of duties and responsibilities of the posts concerned. In 1959, the State Government issued an order and emolument became the chief criterion according to this order.<sup>33</sup> Thus, the State Civil Services came to consist of Classes I, II, III and IV.

During this period, the strength of the Public Service Commission was increased to five (This was on July 4, 1962). The non-official majority in the composition of the Commission was maintained. The Chairman was a non-official. An outsider, preferably an official, came to be appointed as a member of the Commission. Now they have made it a convention to do so. The Public Service Commission played a notable part in recruiting young men and women to the State Public Services during this period. It also selected candidates to undergo training either in Regional Foresters School in Dandeli or Coimbatore and to undergo the Diploma Course at the Indian Forest College, Dehra Dun. It also conducted the Departmental Examinations and the All India Services Examination on behalf of the UPSC.

During this period, the State Government made another experiment. With a view to give adequate regional representation to the integrated areas, it took away from the purview of the State Public Service Commission the power to recruit candidates for Class III posts. The Government wanted that the Commission should devote more time to matters relating to gazetted posts and should speed up recruitment. It issued an order to this effect.<sup>34</sup> The Mysore Public Service Commission (Consultation) Regulations, 1958, the Mysore Ministerial Services (Recruitment) Rules, 1958 and the other relevant Rules were all amended accordingly. It set up a Divisional Recruitment Committee for each Revenue Division and State Level Recruitment Committees at the State level. At the State level, there were two such Committees: (i) for Ministerial Posts (including Stenographers and Typists) for the Secretariat and the offices of the Heads of the Departments located in Bangalore and (ii) for certain Class III Non-Ministerial posts like Sub-Inspectors

<sup>33</sup> Added with effect from 1-7-1959 vide Notification No. GAD 6 CAR 58, dated 1-7-1959. The amendments made in this notification shall not affect, it was stated, any proceeding pending on the date of this notification and such proceeding shall be continued and disposed off in accordance with the Mysore Civil Services Classification, Control and Appeal Rules, 1957 in force prior to that date.

Notification No. GAD 26 OSR dated October 26, 1960 added "Talathis" to Class III category.

Government Order issued on January 25, 1957 defined the term "Pay" for purposes of classifying the post under a particular Class. As such this Order is very important: G. O. No. FI (B) 14034-14134 Bud. 119-56-3, dated January 25, 1957.

<sup>34</sup> Government Order No. GAD 23 OOM 61, dated Bangalore, October 27, 1961.



of Police, Agricultural Demonstrators, etc. Then all Class III posts were classified into State-Division and District-wide posts by another Government Order,<sup>35</sup> to enable the Recruitment Committees to select the candidates for appointment. The State Level Recruitment Committees were asked to recruit candidates for posts which were declared as State-wide and the Divisional Recruitment Committees were asked to recruit candidates for posts which were declared as Division-wide and District-wide.<sup>36</sup> However, the work of the Public Service Commission was decentralised. These Committees were created by an executive order of the State Government. These Committees worked actually till March 31, 1965. But they were allowed to exist till October 12, 1965.<sup>37</sup> Though these Committees were manned by officials, they worked well between October 1961 and March 31, 1965. They recruited altogether 22,027 persons. They also paid attention to fill up the posts reserved for various classes in the State Public Services as per the Order issued by the Government.<sup>38</sup> However, the experiment was shortlived<sup>39</sup> and once again the State Government vested the power to recruit candidates for the State Public Services in the State Public Service Commission.

Another important problem tackled by the State Government during this period was the integration of services. The Government took steps to revise the cadre strength of the various State services in respect of departmental and general services to accommodate the officers who had opted out to serve the new State of Mysore. They were then allotted to State-wide posts in different Government departments.<sup>40</sup> Then the government determined the principles and procedures of integration and issued an Order.<sup>41</sup> It issued another order regarding the fixation of inter-State Seniority and reckoning of service

<sup>35</sup> Approves the Classification of Class III Posts into State-wide, Division-wide and District-wide Cadres, "G. O. No. GAD (SLC) 3 RCM 61 dated Bangalore, the January 29, 1962", *The Mysore Gazette*, April 12, 1962.

<sup>36</sup> G.O. No. GAD (SLC) 26 RGM 61, dated Bangalore, February 26, 1962.

<sup>37</sup> Notification No. GAD 40 SSC 64 dated October 12, 1965.

<sup>38</sup> G. O. No. GAD 177 SRR 62 dated Bangalore, September 16, 1963.

<sup>39</sup> "Govindappa Tirkappa Harakari Vs. Inspector General of Registration and Commissioner of Stamps and others, Writ Petition No. 1979 of 1963 with connected Writs", *The Mysore Law Journal*, Vol. 43, July 10, 1964, No. 13, p. 133.

See also Writ Petition No. 1733/64: Kenchaiah and Others Vs. The State Level Recruitment Committee and Others—Respondents. In these two cases, the High Court quashed the appointments made by the Recruitment Committees. Consequently, the Government ran into trouble. Later on it had to wind up these Committees.

<sup>40</sup> The Mysore Legislative Assembly Debates Nov. 1961, Vol No. XI, No. 89, pp. 6, 110-6, 111 (In this, there is a table. It gives the names of the Departments and the allottees, both Gazetted and Non-Gazetted officers belonging to erstwhile States).

<sup>41</sup> O.M. No. SS 14169-289-SRD dated January 9, 1957, Annual Volume of Important Government Orders 1957-58 (The Government Press, Bangalore, 1962), pp. 2-4.

in the equated grade.<sup>42</sup> Unfortunately when it had completed its work more or less with regard to gazetted cadres, it ran into difficulties. In one of the most important cases "M.A. Jaleel v. The State of Mysore" 1961, the High Court quashed the final inter-State seniority lists prepared by the State Government on the ground that these had to be finalised by the Central Government and not by the State Government.<sup>43</sup> The State Government had to accept this judgment. It had to adopt a revised procedure. Out of 62 departmental services both gazetted and non-gazetted, the Government have now finalised the inter-State seniority lists in 28 Gazetted and 18 non-gazetted departments. Slowly, it is trying to solve the problem with a view to build up progressively the *esprit de corps* of the civil service as a whole.

During this period the methods of recruitment varied greatly. For certain gazetted posts in different departmental services in the State, the system of competitive examination was introduced but it consisted of (i) written examination in General Knowledge and (ii) viva voce as per Rule 4 of the Mysore Recruitment of Gazetted Probationers Rules, 1959. The gazetted posts in all the departments were not filled by this method. Further the very scheme of this type of competitive examination was not of a proper standard. The Block Development Officers Class II (Gazetted) were recruited after 1962 wholly by promotion of Deputy Block Development Officers, on the basis of seniority-cum-merit. During 1960-61, Probationary Tahsildars and Regional Transport officers were selected on the basis of viva voce as per the Order of the Government. If one goes through the Reports of the Mysore State Public Service Commission, one finds such examples as departing from the Cadre and Recruitment Rules while making recruitment, altering the age limits, altering the very scheme of recruitment, etc. However, we have to note one thing. Instead of appointing probationers directly after interviewing the applicants, at least, the so-called examination was introduced. This constituted some improvement over the previous system. This continued till the State Government promulgated the Mysore Recruitment of Gazetted Probationers (Classes I and II Posts Appointment by Competitive Examinations) Rules, 1966.

During this period steps were taken to regularise the local appointees. With the introduction of Panchayati Raj in Mysore State and its formal inauguration by the late Dr. Rajendra Prasad on December

<sup>42</sup> O. M. No/GAD 47 IDI 59 dated December 21, 1959, Important Government Orders issued by the State Government during the year 1959 (The Government Press, Bangalore, 1964), pp. 130-131.

<sup>43</sup> M. A. Jaleel Vs. The State of Mysore, *The Mysore Law Journal*, 1961 pp. 425-441.

21, 1960, a need arose to train the functionaries of the Panchayati Raj Institutions in developmental administration. Steps were taken in this direction. The system of training for gazetted officers in the State of Mysore was thoroughly overhauled. The Government of India transferred the Orientation and Study Centre Mysore, to the State Government and the Centre was then redesignated as Administrative Training Institute, Government of Mysore, Mysore. Now this Institute provides institutional training to officers.

During this period, it was also laid down that the top posts in all the departments should be filled up only on the basis of merit, *viz.*, by promotion by selection. The present day principles of promotion differ from department to department due to various cadre and recruitment rules. In any case, there is provision for promotion. The other posts are filled mostly on the basis of seniority-cum-merit! With a view to ensuring close and continuous cooperation between the State as an employer and the general body of the civil servants as employees, the State Government took steps to set up Staff Councils as back as 1957 and these Staff Councils are working, though not well.

The State Government also took steps to improve the service conditions of the employees. The Public Personnel Administration in the State is undergoing a process of evolution. After all, administration is dynamic. Its problems cannot be solved once for all. The Government has not lagged behind to make the Public Personnel Administration up-to-date. It is trying to keep in tune with the times and the developments that are taking place elsewhere in the world. The history of Public Personnel Administration in the State of Mysore shows this.

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## PUBLIC POLICIES AND RADICAL SOCIAL CHANGE NEED FOR A SOCIAL REPORT\*

*M. Rajan*

**A**CCCELERATED economic development along with social justice has been the prime concern of the Government of India since Independence. But after the 1967 general elections—and its dramatic aftermath, the 1969 split in the Congress Party—a major reordering of priorities in this policy was clearly discernible. Henceforth the attainment of economic and social justice became the predominant concern of the government. It became more than ever before alive to the fact that the weaker sections of the society had not had their due share of the fruits of economic development and that the vested interests were responsible for this deprivation. Soon a spate of radical policy declarations, and legislations to give effect to them, followed. The government also embarked on an intensive publicity campaign asserting its commitment to socialism and its determination to grapple with the problems of inequality, deprivation and poverty prevailing in Indian society through radical measures. These steps signified a marked departure from the policies of moderation pursued by the government since Independence which envisaged the introduction of socialism only by stages and looked down upon any revolutionary measure to attain this goal with distaste.

The purpose of this article is to penetrate through the rhetoric that has enveloped these policies and to identify the actual forces that had shaped these policies. An attempt will also be made to explore whether the measures contemplated by the government are in fact capable of realizing the social goals that are supposed to have inspired them.

### *Western Concepts—Their Relevance to India*

There has been a great deal of theorising on the causes and consequences of public policies by Western scholars, in terms of one or a combination of models, such as rational planning, incrementalism,

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interest group activity, elite preferences, systemic forces and institutional influences.<sup>1</sup> But none of these models are capable of explaining the policy process in the developing countries. Taking rational planning, for example, in most of the developing countries there do exist special planning units with responsibility for comprehensive assessment of the socio-economic conditions prevailing in the country and to formulate plans for rapid economic development in the light of this assessment. But on account of the relatively backward state of the economies of their countries, the scarce monetary and material resources and the low stage of technological development, these governments have singularly failed to bring about the kind of rapid socio-economic transformation through rational plans that would have equalled the high aspirations of their people. Such plans have, therefore, not been particularly popular with the masses; the people at best have remained indifferent to them. In consequence, the vast majority of government decisions having momentous consequences are taken outside these plans. Rational planning has, therefore, only a limited role to play in policy making in these countries. Even in India, the five-year plans have singularly failed to evoke and hold the enthusiasm of the masses.

The strategy of the incremental model has resulted in restricting the range of policy choices to similar policies executed in the past so that the risks involved in totally new departures is minimised. The incremental model considers only gradual modifications in policies based on knowledge gained from similar policies in the past. Such a model is not of much help for developing countries for whom policy innovations are indispensable for accelerated economic development and which necessarily mean a sharp break from the past. Moreover, there is no past experiment in accelerated economic development (except in one or two socialist countries and that too under rather unique political conditions) to serve as models for them from which they can learn for undertaking incremental changes to suit their own conditions.

The interest group model explains how a government responds to the competing demands of different groups and how public policy is the result of an equilibrium reached in this struggle of competing interest groups to influence the policies of the government. A democratic government functions by constantly responding to group pressures. Changes in the relative influence of any of these competing interest groups would, therefore, result in changes in government's policy. This model is not very useful to explain the policy processes in developing countries. In developing countries, interest groups are few in

<sup>1</sup> For a comprehensive discussion, see Thomas R. Dye, *Understanding Public Policy*, Englewood Cliff, (New Jersey, Prentice-Hall, 1972.

number and especially weak when it comes to representing deprived strata of society whose impact on policy processes is not generally significant.

The institutional model describes the role of various governmental institutions, such as Parliament, cabinet, courts, etc., in determining, implementing and enforcing public policies. In developing countries, such institutions have little role in formulating public policies. Most of these countries are ruled by a small coterie of leaders; almost all the political institutions in the country are there only to give expression to their will.

The theory of elite articulation implies that the people are apathetic and ill-informed about public policy questions, and it is, therefore, actually the elite who shape mass opinion in favour of a public policy of their own choice. Thus, public policy really turns out to be the preference of the elite. As such, public policies do not represent the needs of the masses but reflect only the values held by the elite. As most of the developing countries are dominated by Western educated leaders drawn from the upper socio-economic strata, it is safe to assume that they would be more interested in preserving the prevailing social system rather than making any radical changes in that system. Most of the radical policy declarations made in the developing countries are, therefore, used more as slogans for recruiting political support from the deprived sections, who form the vast majority of the population, than as any clear indicator of determined execution to change the prevailing system of dominance and exploitation.

The systems analysis model explains public policy in terms of the political system prevailing in the country. A political system is composed of a variety of institutions, such as its judicial, executive and legislative bodies, political parties, periodic elections, interest groups, etc. The activities of these institutions are influenced by the attitudes of the elite and various strata of the masses, their customs and traditions and the various explicit and implicit ideologies held by them. In a democratic system, all these play their role in moulding and shaping public policy. In addition, the environmental forces, such as the level of technological development, the extent of urbanisation, the character of the economic system and its level of development, the degree of modernization of the society, its occupational structure and mobility patterns, its class system and racial composition, and the prevailing myths and beliefs also influence the shaping of public policies. Significantly, American economists by analysing the public policies pursued by different states in the United States over a period of time, have shown that a state with a competitive political system did not devote any more

resources to welfare policies than a state with a non-competitive system when both were at the same level of economic development. Such findings, however, can have relevance only to those countries which have a stable political system. But systems analysis may have partial relevance for analysing public policies of developing countries as the internal political activities and developments have immediate consequences on the policies pursued by these countries.<sup>2</sup>

On the whole, none of these models, as shaped by Western social scientists, can be adopted in their present form to explain policy processes in developing countries, though they may all serve as useful guides. They were designed essentially for the analysis of public policies under relatively stable, social, economic and political conditions. But the main burden of public policy analysis in developing countries must be in the direction of assessing the relationship between the compulsions that a backward economy imposes on the government, the radical policies which it is consequently impelled to adopt, and the overall effect of such policies on the masses.

### *Crisis Situation Dictates Radical Steps*

In all developing countries, including India, reforms, promising to promote the general welfare, which appear sweeping in nature are introduced. The causes and consequences of such programmes, independently of the rhetoric accompanying them, have rarely been seriously studied. It is wellknown that the introduction of such radical measures is necessitated by the economic and political aspirations of the people aroused during the years of the struggle against colonialism. The national governments were soon to discover, however, that the expectations of the masses which they had consciously promoted surpassed their capacity to fulfil them. The leaders of the Independence movement, in order to arouse the enthusiasm of the masses during the struggle, had advocated "socialist" ideas for liberating the masses from economic exploitation as one of their principal aims. The governments that came to power on the attainment of freedom had, therefore, of necessity, to take on a populist posture. But such postures cannot conceal for long the inherent incapacity of the governments to accomplish the kind of economic and social transformation promised by them.

If these countries also adopted a democratic framework, based on the values of freedom of speech and assembly, a free press, and freedom

<sup>2</sup> See Thomas R. Dye, *Understanding Public Policy*, op. cit. For implications of these models for public policy analysis in developing countries, see especially Yehezkel Dror, *Public Policy-making Reexamined*, Chandler Publishing Company, Scranton, Pennsylvania, 1968, pp. 105-119.



to form opposition parties, the rising but unfulfilled expectations of the people resulted in social unrest and violence, creating crisis situations for their governments. Many of the sweeping reforms introduced by these governments from time to time are the products of such crisis situations. Since such reforms do not alter the basic structure of the society nor place at the disposal of the government economic and material resources greater than those available to them before, the introduction of these reforms does not significantly affect the economic and social conditions of the target groups. All that these reforms do, or are intended to do, is to create a feeling in these groups that the government really cares for them.

Public policies thus have value both as symbols and as instruments for actual allocation of tangible resources. In times of crisis, the government tends to resort to radical policies, accompanied by intensive dissemination of symbols (such as "socialism") but their actual effect upon resource reallocation has almost always been insignificant. Often the statutes which promise something substantially different from what was delivered are also the ones which have been most intensely publicised as symbolising protection of widely shared interests.<sup>3</sup> In practice, there is often great disparity between the symbol that the statute stands for and its actual effect upon resource reallocation.

Various socio-psychological factors contribute to create a situation in which reality becomes irrelevant for persons very strongly committed to an emotion-satisfying symbol. If certain situations are capable of stirring up strong emotions in the people or if such situations are incomprehensible to them, they tend to read their own meanings into such situations. It is in such "emotionally laden and poorly defined situations that the most widely and loudly publicised policies are launched and administered."<sup>4</sup> This is so because if the public have little "cognitive familiarity with issues, their 'interest' in such issues is likely to be a function of other socio-psychological factors."<sup>5</sup>

The cognitive perception of the masses being poor, they can only see and think in terms of stereotypes that are personalised and greatly simplified. They are not in a position to comprehend ambiguous and complex situations. They are, therefore, liable to respond chiefly to

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<sup>3</sup> For a fuller discussion of a dichotomous distinction of public policies into "material" and "symbolic", see Murray Edelman, "Symbols and Political Quiescence", *The American Political Science Review*, Vol. LIV, No. 3, Sept. 1960, pp. 695-704. For implication of this dichotomy for policy analysis, see Thomas R. Dye, *Understanding Public Policy*, op. cit., pp. 291-99.

<sup>4</sup> Murray Edelman, *ibid.*

<sup>5</sup> Murray Edelman, *ibid.*



symbols that oversimplify or distort situations according to their own cognitive capacities. Usually this happens when they feel that their security is threatened by some emergent problem which is beyond their power to comprehend. In short, when people are faced with problems arousing their concern, it is characteristic of them to seek refuge in some symbol which would appease their emotions. Their emotions thus pacified, they relapse into a state of contentment. Thereafter they feel no urge for further active interest in that problem.

This phenomenon has great political significance. The emotions of the people are easily stirred by economic and political issues or events as their impact is intimately felt by them. At the same time, a full comprehension of such issues or situations is generally beyond their cognitive power. In such situations, people are prone to avoid the reality of the situation by relying on some symbol provided by the government. This, in turn, alleviates psychologically their feeling of anxiety and provides them with some kind of "intellectual security".<sup>6</sup> Thus, simply by symbolic legislation, a government can convert an agitating situation into a situation of contentment.

It is not infrequent, therefore, that it is in situations of crisis or turmoil—and even more of confusion—which threaten the sense of security of the people that governments take recourse to symbolic legislations to alleviate their anxiety. The tangible effects of such policies being negligible, government agencies would not generally welcome any attempt to evaluate the impact of these programmes, as that might prove revealing. But it is absolutely necessary that such an evaluation is made. In this article, we shall seek to examine the causes and consequences of the radical policies initiated by the Government of India after the 1967 general elections and the 1969 split in the Congress Party in order to illustrate what is stated above and suggest a way of evolving a workable approach to policy analysis.

## II

### THE INDIAN SCENE

The period 1966-71, in which most of the radical measures were initiated, publicised and launched by the government, was both a crucial and an epochmaking era in recent Indian history. It was crucial, because during this period, the country passed through many critical political situations, such as the succession struggles in the

<sup>6</sup> For a discussion of the symbolic side of politics, see Murray Edelman, *The Symbolic Uses of Politics* (Urbana), University of Illinois Press, 1964.

ruling Congress party, widespread opportunistic defections in the legislatures resulting in unstable governments in the states, drastic reduction in the strength of the ruling party in Parliament leading to the weakening of the Central Government, and release of centrifugal forces threatening the unity of the nation; and critical social situations, like mounting unemployment, soaring prices, rampant strikes, lockouts, demonstrations, and violence creating great social tensions and a general breakdown of law and order throughout the country.

It was an epochmaking era not only because the country survived these critical situations and emerged stronger with new vigour and zeal but also because it marked the beginning of a radical departure in the government's approach to the social problems confronting the country. The overall phenomenon has been typical of the theory, described earlier, that in a crisis situation the government takes recourse to "radical" measures, attended by wide publicity and intensive dissemination of powerful symbols, such as "socialism" and "*garibi hatao*". We must examine the validity of some of these radical measures with a view to understanding if they are really capable of conferring tangible benefits on the weaker sections of society as they profess to do, or whether they will go down in history as measures merely of symbolic value resorted to by the government to surmount a political crisis.

When Mrs. Gandhi assumed Prime Ministership of the country in 1966, the Congress Party had already lost its cohesion. The predominant role given to the state leaders during the succession struggles had severely undermined central authority. Though the question of leadership, between Mrs. Gandhi and Shri Morarji Desai, had been settled through an open contest, the defeated faction was still powerful both in Parliament and the party, disrupting the smooth functioning of the government. Thus, the Congress Party was in complete disarray on the eve of the 1967 general elections. The process was further accentuated by the 1967 elections which inflicted severe jolts to the Congress Party; it was defeated in half of the states, and its majority in the Centre was reduced considerably. The election results reflected the disenchantment of the people with the Congress Party which had provided the country with a stable government for two decades and which had at one time embodied the hopes and aspirations of the people. Despite these shocks, however, there ensued a long-drawn out battle between the two factions in the Congress which, despite a temporary truce at the Centre, engendered not only much bitterness and distrust but also a continuous effort to undermine the Prime Minister's authority.

Meanwhile, the whole political atmosphere in the country was in

ferment. Large scale dishonest, unprincipled and opportunistic defections and 'horse-trading', which were the order of the day in most state legislatures, had brought down not only the prestige of these institutions but also of their governments. The administration in most of these states had come to a virtual standstill as governments were toppled one after another, and the legislators and party leaders kept themselves busy in forging unprincipled alliances, their sole concern being to keep themselves in power.

It was in this atmosphere of crisis that Mrs. Gandhi asserted her leadership of the country. The task facing her was indeed formidable. Her first efforts were directed to the restoration of the waning confidence of the people in the Congress Party and its leadership. The 1967 elections had clearly revealed the extent of disenchantment of the people with her party. Further, its inner weakness—factionalism, intrigues and group rivalries within the party—had all been clearly exposed to the public gaze during the succession struggles. Above all, she realized that the Congress Party had a long record of unfulfilled promises. Mrs. Gandhi, therefore, set about assuring the people that there would be a change and that the past promises would be fulfilled. She also took every opportunity to remind her own party men that though the Congress Party was committed to socialism and had indeed passed many resolutions favouring socialist programmes during the last 25 years, the party had not acted upon them with will and determination. There was, she reminded her party men, a widening gap between the party's promises and performance. The people were losing faith in the party. She, therefore, exhorted the party leadership to come to grips with the fundamental issues of implementing the socialist programmes to which the party was committed.

But the speeding up of the socialist programmes of the party, which she advocated, was by no means easy. The Congress leadership was in the grip of a few old men who drew their support from wealthy landlords, industrialists, and businessmen. The air of aloofness and arrogance that had become part of their personality by uninterrupted enjoyment of power had also completely alienated them from the masses. Being basically conservative, they also had little regard for modern ideas and for the need for basic changes.

It is, therefore, not surprising that Mrs. Gandhi next shifted her efforts to the replacement of this leadership by a more imaginative, youthful and vigorous leadership committed to socialist ideals. A series of manoeuvres by Mrs. Gandhi to bring about this objective culminated in the split of the party and her assuming unrivalled power

both in the party and the government. It was in the process of this change that many of the socialist slogans calling for radical action on the part of the government and party were raised.

The Prime Minister in her Independence Day address on August 15, 1970, called upon the people to take up resolutely the "challenge of change" to fight poverty. She further declared that the time for "tinkering" with the problems of social and economic change had long been past. She assured the people that determined efforts would be made in various directions to help the underprivileged and to curb those tendencies which perpetuated the distinction between the privileged and underprivileged. She declared to her party men that she was determined to implement the ideals of socialism, regardless of the consequences. She told them that the nation expected them to ameliorate the living conditions of the poor, check concentration of economic power, narrow down disparities and provide a better deal to the landless and to the scheduled castes and tribes who had suffered "historical disabilities". She warned that unless steps were taken to quicken the pace in implementing socialist policies so as to eradicate poverty and social and economic inequalities in the society, the increasing discontent and impatience among the poor would erupt into a violent revolution. It was on the basis of this radical programme that Mrs. Gandhi and her party were swept back to power with a massive mandate in the 1971 elections.

No wonder the political climate in the country became charged with radicalism. The aspirations, hopes and emotions of the people were raised to a high pitch. There was an explosion of expectations among the people. There was such enthusiasm among the people for the radical measures announced by the government that even the avowed rightist parties began to vie with each other and with the Congress Party in demanding more and more radical measures. An air of expectancy and enthusiasm pervaded the atmosphere of the country.

Now, the issue for our consideration is whether the government did in fact possess the means to bring about the radical changes in the social and economic system of the country overnight to match the stirred up expectations of the people and their enthusiasm. There could only be one answer to the question: at the present stage of development of the country, any such miraculous social transformation is not within the means of the government, however earnest and sincere it may be in translating its professed ideals into reality. There is simply not enough wealth in the country, by the redistribution of which, the government can wipe out poverty from the country as a whole. The country has yet to take long strides in its productive capacity, both in its agricultural

and industrial sectors, before the government can be assured of even a situation in which the rising employment opportunities would keep pace with the rise in the population. Moreover, the government cannot, within the span of a few years, transform the social attitudes of the deprived sections to one receptive to modern ideas; it may perhaps take a whole generation before such a social attitude is accepted among the traditionally deprived sections. For example, by broadbasing its educational policy, the government has only succeeded in swelling the ranks of the educated unemployed seeking white collar jobs, whereas the prime need of the hour is competent technicians in factories and farms, capable of working with their own hands. Briefly, therefore, all the evidence that we have suggest that it was beyond the capacity of the government, with the existing human and material resources at their disposal, to bring about the type of social transformation promised by them at the time the socialist programmes were launched.

Under these circumstances, can we assume, in accordance with our earlier hypothesis, that, by launching these measures in a crisis situation, the government had merely taken recourse to symbolic measures with radical overtones in the hope that the symbolic impact of these measures would pacify the stirred up public feelings and aspirations? If this assumption is reasonable, it naturally follows that these measures will not confer any material benefits on the target groups. We may, therefore, take a closer look at these measures to see if they lent themselves to test this hypothesis which draws a distinction between public policies as measures of symbolic value and public policies which actually carry out promises made to specific social groups.

Let us, first of all, take up the two much-publicised bills abolishing the privy purses and privileges of the princes, and the special privileges of the ICS officers. The main objective of these bills, as propounded by the government, was the removal of incongruence between the concepts of democracy and equality and the reality of special privileges enjoyed by the princes and the ICS officers. It was stated that these privileges were vestiges of the colonial period and had no longer any place in a country which was struggling to bring about an egalitarian society. It was this anachronism that was intended to be remedied by these bills. There was no attempt to even claim that they were intended to confer material benefits on the common people. As Mrs. Gandhi declared: "I am not saying that the removal of purses would solve poverty or unemployment or any other problem."<sup>7</sup> In other words, the bills were intended only to give a symbolic satisfaction to the people, and not to promote their material advancement.

<sup>7</sup> See Prime Minister's speech in Lok Sabha moving the Bill for Abolition of Privy Purses, on September 1, 1970.

This does not, however, mean that the bills had no purpose to serve. They served as a great morale booster to the deprived sections of the country. They demonstrated to the people the government's determination in securing equality and social justice to the underprivileged in the country. The bills had the desired effect. But obviously the bills were distinctly "symbolic" measures and not "substantive".

The same cannot be said with regard to other "radical" measures. All of them were avowed to confer material benefits on the underprivileged and were therefore "substantive" in character. We may take up the most important of them, namely, the nationalisation of the banks.

The main objective of the legislation, according to the various statements of the Prime Minister, was to see that the banking operations in future were, in furtherance of the socialistic objectives of the government, that they "should be informed by a larger social purpose". This was meant to be a clear break from the past when the banks were closely associated with major industrial and commercial houses. Henceforth, the banks were expected to lend a helping hand in the development of backward areas, promotion of agriculture, stimulation of small-scale industries, and assistance to self-employed artisans and individual professional talent in the country. Under the new scheme, the bank managers would be able to extend lending facilities fearlessly in fields which remained neglected so far, such as "retail trade, small business, minor repair industries, small farming and the self-employed sector".<sup>8</sup> It was expected that the bank managers would be able to "shed their unreasonable fears of penalization and feel encouraged to expand lending to the small man."<sup>9</sup>

Thus the bill was clearly one which promised to confer unequivocally and unambiguously material benefits on the underprivileged and deserving strata of society. If, on the other hand, the bill failed to realise this objective, not only would it reflect on the government's determination to implement its professed goals, but its very motive in enacting the bill could become subject to doubt. Had the government enacted the bill only as a symbolic gesture, without any serious intention of realizing its presumed objectives? Questions in a similar vein could be asked in respect of all other radical measures as well.

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<sup>8</sup> See Prime Minister's speech at the meeting of the custodians of the nationalized banks on October 1, 1969.

<sup>9</sup> *Ibid.*

It may perhaps be premature to sit in judgement on the performance of the nationalised banks and other radical schemes. But what is clearly a matter of concern (or what is intriguing) is the absence of any earnest initiative or endeavour on the part of both the government and the academic world to design a suitable machinery for evaluating the performance of various institutions and enactments based on relevant information and its processing by reference to declared objectives. What adds urgency and new dimensions to the problem is the fact that unlike the measures launched in the Nehru era when the basic policies of the government were clearer and the emphasis on the public sector mainly meant the building up of basic industries for speeding up the country's industrialisation, and nationalisation was largely for the purpose of a more rational allocation of scarce resources or to boost up the export trade, the radical measures initiated by Mrs. Gandhi are meant to serve entirely new goals. The new measures were enacted with the hope that they would serve as instruments for a rapid social transformation by inducing changes in the social structure of the country as well as in the distribution of economic and political power of various groups. This was clearly an unprecedented attempt in India. They, therefore, demand novel efforts for the evaluation of their results. Crucial to an assessment as to how these measures have lived up to their professed goals is the need for a new method of social accounting and social audit.

From all accounts available, there is little to suggest that the banking operations of the nationalized banks in the last four years have been particularly inspired by the "larger social purpose" for which they were nationalized four years ago. Their advances to the priority sector, small entrepreneurs, poor farmers, self-employed artisans, etc., account for less than a quarter of their total loans. The rest have gone to the conventional customers, the big business interests. Further, data are not available to ascertain how much of this one quarter advanced to the priority sector has actually gone to the weaker sections of the society. "About half of the total of such priority credit went to small industries (some of which are closely linked with large industries) and the share of agriculture (6.8 per cent in June 1972) included a substantial slice (one-third of the total for agriculture and allied activities) of loans to plantations, and presumably a large amount given to large farmers."<sup>10</sup> As of now, therefore, bank nationalisation remains, by and large, a symbolic measure as far as the deprived sections of society are concerned.

Similarly, in the case of radical land reform measures, the Planning Commission's own task force on agrarian relations has reported that,

<sup>10</sup> Bhabatosh Datta, "Commercial Banks: Four Years after Nationalization", *Economic and Political Weekly*, Vol. VIII, No. 29, July 21, 1973, p. 1287.



if the new measures such as tenancy reforms, ceiling on agricultural holdings and distribution of land to the landless and smallholders had been implemented resolutely, they could have led to a radical change in the agrarian system and ushered in a measure of distributive justice, but because of the "hiatus between precept and practice, between policy pronouncements and actual execution", the programme has failed to bring about any perceptible change in the agrarian structure.<sup>11</sup> The net benefits derived by the poor peasants and landless agricultural labourers from the "radical" land reform measures are hardly material and the measures cannot claim to be anything more than of symbolic importance.

### III

The policy goals underlying the new radical programme ushered in since 1969 represented the Government's intention to hasten the momentum of social change towards greater equality and social justice. It was the hope of the government that it would bring about an egalitarian society, free from social divisions and disparities, by lifting the traditionally disabled, exploited and oppressed sections from their miserable condition and by conferring on them their rightful share of material benefits. In short, the radical measures were intended to be deliberate attempts of interference in the socio-economic structure of society for ensuring equity and justice to all.

Judging by the available evidence, these goals are far from being realised. Equally important, however, is the fact that in both magnitude and direction this is an unprecedented attempt, and would, therefore, call for new tools and methods to assess its results and understand its dynamics. For example, the usual statistical figures indicating an increase in the quantum of bank credit diverted to the "hitherto neglected sectors" will not be a measure of the success of the bank nationalization scheme in accomplishing its social objectives. There is a yet more pertinent question: to what extent this increase in credit diverted to the "priority sectors" has enhanced their social well-being? Similarly, a comparison of the progress made by the nationalised banks in opening a large number of branches in rural areas, in attracting and disbursing credits and in registering larger profits as against the non-nationalised commercial banks, as some economists have tried to do, will not measure the real success of the scheme. Such economic statistics really measure only the transactions that have passed through a market. They do not measure the social gains and losses on account of such transactions.

<sup>11</sup> *Report of the Task Force on Agrarian Relation* (New Delhi), Planning Commission, 1973, p. 8.



Such economic indicators, therefore, will not measure the "social purpose" attained by the scheme. The statistical measures for evaluation of the radical programmes should be such that they can chart and assess the precise changes being brought about in the social system through their operation. They should tell us about the changes that are taking place in our social system through their operation. They should tell us about the changes that are taking place in our social structure that would eventually eliminate elements of exploitation and social injustice from the system, and would ensure equality of status and opportunity to all sections of the population. Such social statistics alone would realistically appraise the success of the radical schemes in realizing their social objectives. In other words, it calls for our developing a system of indicators for measuring social development by reference to social and political goals.

We would, therefore, invite the attention of the readers to the currently growing interest of some social scientists towards building a system of social indicators and for annual social reporting by reference to clearly laid out social goals. Such a system, in their view, will provide for a macroscopic assessment of the performance of the social order and will ultimately serve as instruments for rational management of the society. In the United States, Great Britain and France, significant work is in progress in this field. At least one international organisation, the United Nations Economic Commission for Europe, has launched joint research programmes with several member countries for identification of "social variables which can be used in the matter of a social forecasting, and to topics of sectoral character such as living conditions of elderly people, housing, working conditions and mobility."<sup>12</sup> More recently, a group of radical social thinkers have joined in this task—in a way countering the groups located in the United States—with an avowed purpose of measuring such indicators as injustice, exploitation, dominance and direct as well as "structural" violence.<sup>13</sup>

It is true that the notion of social accounts and reporting has yet to emerge from discussion level with a clear-cut conception and design

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<sup>12</sup> Bernard Cazes, "The Development of Social Indicators: A Survey". For a discussion of Social Reporting and National Goals, see, Eleanor Bernert Sheldon and Kenneth C. Land, "Social Reporting for the 1970's—A Review and Programmatic Statement", *Policy Sciences*, Vol. 3, No. 2, 1972; and Roy C. Amara, "Towards a Framework for National Goals and Policy Research", in *Policy Sciences*, Vol. 3, No. 1, March 1972.

<sup>13</sup> I refer here to the group on World Development Indicators set up by the World Order Models Project which is an international group of socially committed intellectuals working on the future of mankind. The Indicators Group has been set up in collaboration between the International Peace Research Institute at Oslo under the leadership of John Galtung, the Centre for the Study of Developing Societies in Delhi and other similar institutions from other regions.

and clarity about the feasibility of developing such instruments and the functions that these instruments are eventually to perform. There is also as yet no unanimity among social scientists about what types of data are to be included or excluded in the formulation of such a report. But this will, of course, depend on the concept and the theory of the democratic socialist system that we want to build for our country and the precise values it is intended to serve. There is as yet no clear consensus on the items to be included in social reporting which can serve as our model. This, of course, is, as it should be, for there cannot be one single framework for such an effort. Absence of such consensus should not deter us from making our own efforts at building a system of social indicators, taking as our point of departure our own urgent need for a rapid social transformation as evidenced in the various radical policies to which we are committed.

In socialist countries, "planning is a powerful instrument of social and economic advancement and of national development. Therefore, programmes of national economic development... incorporate not only economic indices but also social ones. Both types are to be found in the national economic programmes of socialist countries for the accounting, mobilization and purposeful utilization of all the resources of the country."<sup>14</sup> But since only scanty details are available to us of their social planning and also because of the fundamental differences between their socio-political systems and ours, we cannot emulate their model of social planning and accounting (just as we cannot emulate the model of the capitalist countries).

Therefore, it is imperative that we build a system of our own for gathering social information (indicators) to help establish our social goals and priorities so that a periodic evaluation of the social impact of our radical programmes is possible. We could thus make a start in developing a system of social audit. How best are we achieving the social goals set by us for ourselves by our radical programmes? What alternative political interventions are necessary? What are their respective costs, and with what implications for public policy?

Obviously, our urgent first step in this direction is to gather all possible data pertaining to our social order and how it functions. From such assembled data, we can draw the model of our present society, by descriptive reporting. Once started earnestly, such data will be available to us over a period in "time-series" form. Such data then

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<sup>14</sup> V. M. Kollontai and G.I. Mirsky, "Social Development Indices in National Economic Programmes" in *International Social Science Journal*, Vol. XVI, No. 2, 1964, pp. 284-290.

can be disaggregated to provide analysis of subgroup differences, e.g., income level of backward communities, the progress they are making in education, mobility, health, etc. This will not only describe the state of some sectors of our social system, but will also chart the direction and rate of change in these sectors.

Unfortunately, so far in India, though radical policies have been widely publicised as measures for rapid social change by conferring material benefits on the deprived sections and thus improving their social status and opportunities, no conscious steps have been taken to assemble relevant data to identify the impact of these policies on the weaker sections so as to ensure that the benefits are really trickling down to them.

Significantly, the Planning Commission's Task Force on Agrarian Relations reported, "the most important administrative impediment to enforcement of both the ceiling and tenancy laws is the lack of proper record of land rights."<sup>15</sup> It is obvious then that without a proper record of land rights, no reliable data on land holdings can be assembled to evaluate the results of land reforms so as to find out who have benefited from them. Fortunately, the Task Force has recommended that top priority should be given for updating land records. The various rounds of the National Sample Survey throw little light on the characteristics of the various segments of the society and the changes taking place in them. It is, therefore, necessary that the scope of the National Sample Survey be enlarged in such a manner that data on our various social components are also available to scholars for analysis and evaluation.

It is essential that such a system of annual social reporting is initiated right away to evaluate the outcome of our radical social policies to see if they are realising the declared "social purpose" for which they were adopted. In this context, the several studies conducted by American scholars to evaluate the outcome of the regulatory measures adopted by their federal and state governments and the conclusions arrived at by them are revealing. They show how deceptive such regulatory measures could be in their actual outcome. Not only were most of them found useless as instruments for protecting the interests of the target groups (as they professed to do) but in reality they were found to serve the very interests of those whose exploitation they were supposed to prevent.<sup>16</sup> This should forewarn us that, unless the Indian

<sup>15</sup> *Report of the Task Force on Agrarian Relations*, op. cit., p. 22.

<sup>16</sup> See, for example, Clair Wilcox, *Public Policies Toward Business* (Chicago, 1955); Frederic Meyers, *Right to Work in Practice* (New York: Fund for the Republic, 1959); Walton Hamilton and Irene Till, *Antitrust in Action*, TNEC Monograph 16 (Washington: GPO, 1940).

Government and the academic world take immediate measures to evaluate the outcome of our radical policies, periodically, they are also likely to meet a similar fate at the hands of bureaucrats and vested interests.

This is because a democratic government is often liable to become a pawn in the hands of organised interest groups. The organised interest groups in such countries have invariably ready access to governmental agencies and are able to procure and analyse pertinent information concerning a particular measure and then take measures to undermine it. The unorganised and amorphous social groups at large have no such recourse open to them. Unfortunately, in India, there have been no serious studies on the outcome of our regulatory measures. The "Mundra Deal" scandal was a clear pointer as to how organised interests could successfully use national resources for their private ends (L.I.C. in this instance), by using official agencies as instruments for the purpose, while life insurance business had been nationalised just to prevent such exploitation. It is also not surprising that the credit distribution record of the nationalised banks has not shown any markedly different trend. Significantly too, the Task Force on Agrarian Relations of the Planning Commission has also reported that the attitude of bureaucracy towards the implementation of land reforms was "generally lukewarm and often apathetic". "This is, of course, inevitable because, as in the case of the men who wield power, those in the higher echelons of the administration also are substantial landowners themselves or they have close links with big landowners. The village functionaries like patwaries, karmacharies, karnams, sambogs, talatis, etc. are invariably petty landowners. They are also under the sway of big landowners. In the result, practically in every state, administrative organisations have proved to be an inadequate instrument for the speedy and efficient implementation of land reforms."<sup>17</sup> Further, "As the ceiling laws were enacted after protracted deliberations, the landowners got plenty of time to anticipate the shape of things to come and to set about circumventing the prospective ceiling laws."<sup>18</sup>

The Task Force further found that "Even where the administrative machinery was generally keen to record the names of share-croppers in the record of rights", to give them security of tenure, "the response from the beneficiaries was found to be inadequate because they were most reluctant to annoy the landowners on whom they were dependent in many ways. Mere recording of name in the record-of-rights by itself, will not guarantee security of tenure. There is nothing to prevent a

<sup>17</sup> *Report of the Task Force on Agrarian Relations*, op. cit., p. 9.

<sup>18</sup> *Ibid*, p. 22.

determined group of landowners from adopting 'other methods' to throw out physically from the land the share-croppers who have the temerity to get themselves recorded as tenants."<sup>19</sup> Incidents of Harijan persecution by the land-owning higher caste Hindus for demanding higher wages or right to use village wells or roads that are increasingly reported nowadays in newspapers bear ample testimony to the "other methods" they are subjected to with impunity. Further, "Experience shows that where the share-croppers could build some such organisation with modicum of militancy, they could, for sometime, resist the onslaught of the landowners. But, in most cases, the resistance was short-lived because the share-croppers could not withstand for long the economic and social sanctions that were applied against them by the landowners."<sup>20</sup> And that, without a certain degree of politicisation of the poor peasantry on militant lines, "there is always the possibility of such conferment of rights not only becoming illusory but also turning out to be positively harmful as the vast majority of the beneficiaries would succumb to the pressure of landowners and would relinquish their rights and privileges either "voluntarily" or through open and naked coercion."<sup>21</sup>

All such observations, though still largely impressionistic, point to the fact that our radical policies are faring no better than the U.S. regulatory policies at the hands of bureaucrats and organised vested interests. Therefore, without a proper system of annual social reporting on the outcome of our radical policies, the "social purpose" of the schemes will not be secured. Our most urgent need is to get down in right earnest to the task of preparing a descriptive report on the present state of our society showing the socio-economic characteristics of its various components and also the model of the society we wish to create, laying down the preferred state. In rural parts, it would show the economic and social characteristics of landowners (according to the size of land-holdings), marginal cultivators, landless agricultural labourers, craftsmen, etc. In urban areas, it would portray the economic and social characteristics of the factory workers, white collar workers, professional men, petty and big businessmen and artisans. If we could accomplish this task, then through a system of time-series data and their analysis, we can draw up a social report on how well we are attaining our social goals and targets.

It is obvious that to accomplish such a feat—at the national, state, district or village level—a formidable array of social information

<sup>19</sup> *Report of the Task Force on Agrarian Relations*, p. 25.

<sup>20</sup> *Ibid*, p. 25.

<sup>21</sup> *Ibid*, p. 25.

and analysis will be required. In the present state of social intelligence, available to us, any such attempt may seem insuperable. However, this should not deter us from the urgent need of developing a system of social accounts, to begin with mainly or exclusively by reference to the social impact of the principal public policies involved in the new radical programme. Each public undertaking that has been nationalised or started in the public sector and each government department responsible for implementing radical schemes should submit to the Parliament an annual social report on the performance of the scheme. This alone will help us evaluate the radical programmes in terms of the social goals they are presumed to serve, and provide the necessary guidance for undertaking alternative policy changes and political interventions, wherever found necessary, and to ascertain the social costs of the alternative schemes. Such reports ought to go much beyond mere economic indicators as are commonly reported by government agencies. We have already shown that such economic indicators alone are not capable of measuring social changes as brought about by the operation of given policies. As for establishing the extent of "social purpose" achieved by the policies, they are, of course, meaningless.

The main concern of the report should rather be the measurement of welfare accruing to the deprived sections through the operation of particular policies. For each scheme, a different set of social indicators can be developed according to the scope and objectives of the scheme. For example, the Finance Minister, Mr. Chavan, admitted in the Rajya Sabha on July 28, 1971 that though "radical policies have been evolved and have been accepted", the progress made by the nationalised banks in reaching the "hitherto neglected sectors" was not up to his expectations, notwithstanding the increase in deposits and credits. He further said that apart from mobilising deposits and expanding credit in rural areas, the banks had to play an important role in developing each district as envisaged in the Lead Bank Scheme. Mr. Chavan, therefore, emphasised the importance of reorienting field officers, mainly for extending credit for agriculture and other sectors, whereas hitherto the main concerns of such officers were only trade and commerce. This, indeed, would be an important step for the accomplishment of the social purposes of this scheme. But the progress made in developing each district as envisaged in the Lead Bank Scheme, can never be properly gauged except by building up a new system of social reporting. The task of field officers should also include the drawing up of a descriptive report on these lines. This can be accomplished if the field officers are given proper training to draw up such a descriptive report (even if crudely to begin with) for their district. Then, through such data collected annually, it would be possible to build up a time series and to analyse the

progress being made by the Lead Bank Scheme in developing each district by reference to the actual gains derived by the deprived sections in the district. With such data, we would not only be able to describe the state of various sectors of our society; we could also describe the direction and rate of change of each of these sectors. Eventually, over a period of time, a much more refined explanatory model of society will emerge as new social indicators are designed and tested and others that are found wanting are eliminated.

In any case, the field officers should at least have the necessary descriptive data of their clients so that we know *who* gets credit from the banks and *how* they benefit out of it, if at all. Indian farmers are said to be notorious for wasting borrowed money on feasts and funerals and other unproductive ventures. Such a theory can be tested by a selective development of social indicators as the scheme progresses. The social indicators so constructed, would measure how effectively resources are committed to certain ends—not only by the banks but also by the borrowers.

Similarly, the revenue departments responsible for redistribution of surplus land accruing from the land-ceiling programme should at least have the descriptive data relating to those to whom they have distributed the surplus land. According to the goals of the scheme, Scheduled Castes and Scheduled Tribes should be the main beneficiaries. Only a time-series data will tell us whether such conferment did actually benefit them, improving their income level and social status in the society. For it is well known that they would easily be evicted out of the land either due to lack of funds for investment or just because of the subjective deficiencies accruing from the traditional servility from which they have suffered for centuries. The indicators that are devised for reporting on the progress of this scheme should be sensitive to this social reality.

Unless we develop such social information on the impact of our various radical measures, they are likely to be made ineffective by the vested interests operating in our social order. What is worse, they may even turn out to be the chief beneficiaries of the scheme. There is reason to believe that this is, in fact, already happening. Moreover, there is also a growing feeling in our country, especially among some intellectuals, that since the socialist policies of the government did not originate from an organised demand from the bottom but was formulated by the elite voluntarily and, therefore, almost as a gift from them to the lower strata, they cannot be expected to be implemented effectively as the elite are inherently prone to resist any far reaching changes in the



social order. Similar views have in the past been expressed by western intellectuals who specialise in the political and social processes of developing countries. Thus, according to an influential writer,

“Socialism has become an unthought out assumption, a collection of economic recipes, and a nagging critique, from a distance, of existing institutions. The fresh self-confidence, the wonderful feeling of relevant discovery, the convincing air of ethical righteousness, and the vibrant expectation of a total—and significant—transformation of the entire life of society have nearly disappeared from the socialist movement and from socialist thought since the mid-twenties. The belief that socialism aims enabled one to see reality more realistically and fruitfully, the belief that socialism was a “way of life” and not just a scheme for operating factories and wholesale enterprises has in the main evaporated.”<sup>22</sup>

To quote another Western writer,

“Many policies involve a conflict between different ideological goals; attempts to determine the pay-offs between these have not been very serious, even in those countries whose governments have articulated their goals in terms of socialism. It is true, of course, that most governments pay only lip-service to the development objectives implied by their ideologies, and rarely go beyond exclaiming the right slogans.”<sup>23</sup>

These are relevant observations for our own country. Only a system of sustained social reporting on the performance of the radical policies will show how serious our own government is in attaining the professed policy goals of its radical programmes. For there is the inherent danger that both the government and the public may slip into inertia as the initial enthusiasm and vigour with which these measures were launched are slowly eroded with the passage of time. It is in the nature of day-to-day politics to give attention to the immediate constraints. The Indian Government is almost always confronted with some emergent political or economic problem demanding immediate solution. There was the war in 1971. Then the drought in 1972. Presently, the inflationary trend and the rise in prices have swept all other issues to the background. The public too is seized by immediate pressures and difficulties and will soon forget to inquire if the purpose of

<sup>22</sup> See Edward Shil's Introduction to George Sorel, *Reflections on Violence* (Glencoe), Free Press of Glencoe, 111, 1950, p. 14.

<sup>23</sup> David Feldman, “The Economics of Ideology: Some Problems of Achieving Rural Socialism in Tanzania”, in Colin Leys (ed.), *Politics and Change in Developing Countries*, Cambridge, 1966.



the radical measures for which it voted so enthusiastically has in fact been realised. The emotions that were once aroused have since been pacified by the symbols of "socialism" rather than reality. With a more subtle manipulation of the public mind, it may even come to pass that the very people who were once discontented feel empathetic towards a government which gives them the feeling that it "cares for them" even if it does not in reality confer any benefit on them. This may leave the bureaucracy virtually free to pursue the programmes indefinitely, without arousing any serious controversy, and, in the process, only expand its tentacles. All these point to the need to insist that the radical programmes by which the government swears are reported upon and evaluated by an independent agency. Such a system will not only keep alive the interest of the public in the various programmes; it will also keep the social objectives of the programme always in the forefront. Wherever there is lack of clarity regarding the "social purpose" of a particular scheme, the government should be obliged to define the social objectives unambiguously through a policy statement. Every public enterprise and government department responsible for implementing various schemes should then be made statutorily responsible to provide an annual social audit report of their performance to the public and Parliament.

In the absence of organised social intelligence on the impact of radical policy measures, they may at best be considered visionary. Like all Utopias, they may sketch a most inviting destination, but they do not indicate how we can get there. An examination and assessment of the route, through a relevant system of measurement, should tell us if there is any chance of our moving towards the journey's end that has been so temptingly laid out before us.

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## INSTITUTE NEWS

The Institute conducted the following courses during the month of January, 1974:

- (1) Fourth Course on Training of Trainers, January 7-11 (New Delhi);
- (2) Second Course on Laws in Municipal Administration, January 7-19 (New Delhi);
- (3) Second Course on Introduction to Operations Research, January 15-25 (New Delhi);
- (4) Course on Diagnosing Human Behaviour in Administration, January 17-19 (New Delhi); and
- (5) Course on Developing Human Resources in Organization, January 28—February 2 (New Delhi).

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A summary of the Director's quarterly survey of research activity is given below for the information of the readers: *Studies completed by the end of December, 1973:* (1) "Study of Economics of Different Classes of Service in Railways" by *Shri R.K. Sachdeva* and *Dr. B.N. Gupta*, (2) "A Study of Malpractices in the Railway Reservation System" by *S/Shri A.V. Chaturvedi* and *M.K. Narain*; and (3) "A Study of the Process and Procedures Behind the Reservation Counter" by *S/ Shri D.D. Malhotra* and *G.K. Amar*. All three studies have been completed under

the guidance of *Prof. S.K. Goyal*. *Studies in Progress (to be available by March 1974):* (a) Three Pilot Research Studies on Field Administration: (i) "Study of the Organisational and Administrative Practices", (ii) "Organisational Aspects of District Planning", and (iii) "Study of Response to Administration of Individuals and Identifiable Groups in the Community". These are being conducted by *Prof. Ishwar Dayal*, *Prof. Kuldeep Mathur*, *Dr. M. Bhattacharya*, *Dr. K.N. Kabra* and *Shri S. Mundle*.

(b) Two studies on change in complex organisations are being completed by *Prof. R. C. Goyal*, *Prof. J. K. Ray*, *Dr. Jaideep Singh*, and *Prof. S. P. Verma*.

(c) Five Research Studies on Aspects of Drought Conditions in Maharashtra Districts: (1) "Administrative response to emergency—a study of drought-relief operations"; (2) "Re-deployment of planned investment for disaster relief"; (3) "Priorities in community response to 'Scarcity' conditions in Maharashtra—a study of the impact of an unscheduled event on six rural communities"; (4) "Impact of scarcity on family life: perception by families of their needs and the extent to and the manner in which these needs were met by the public and voluntary effort"; and (5) "Individual aspirations and problems of rehabilitation". These are being carried out by *Dr. M. Bhattacharya*, *Shri V.M. Kulkarni*, *Dr. Indira Mahadevan*, *Prof. Kuldeep Mathur*, and *Shri S. Mundle*.

(d) Other seven studies, are: (i) "States under Presidential Rule" by *Prof. S.R. Maheshwari*; (ii) "Study of a Research Laboratory" by *Shri Ved Prakash*; (iii) "Study of Arrival and Service Pattern at the New Delhi Railway Reservation Offices" by *Shri J.C. Kapur*; (iv) "Study of the Impact of the Operations of the National Small Industries Corporation Ltd." by *Shri N.S.F.B. Tyabji* and *Dr. K.N. Kabra*; (v) "Economics of Optimal Production in the Fertilizer Industry" by *Shri S. Mundle*; (vi) "Organisation and Functions of a State Public Service Commission" by *Dr. R.K. Tiwari*; and (vii) "Study of Cost Behaviour and Price Policy in the Indian Drugs and Pharmaceuticals Ltd." by *Dr. B.N. Gupta*.

*Studies expected to be completed beyond March 1974:* (i) "Study of the Strike in a Public Utility Undertaking" by *Prof. S.P. Verma*; (ii) "Study of Corporate Planning in a Major Municipal System" by *Shri A. Datta*; (iii) "Study of Application of Network Techniques and Network Based Performance Budgeting in the Public Sector Undertakings and Government Departments" by *Shri M. Thyagarajan*; and (iv) "Allocation and Utilisation of Police Force in Delhi" by *Prof. Kanti Swarup*.

Among the consulting activities is a project on management control system and long range planning for a transport undertaking which is in progress and is expected to be completed by March 1974. Work has also begun on another consulting

assignment on "Mechanised Hire Purchase Accounts". A proposal to assess the need of computer applications, selection of the hardware and location of EDP centres in a Government Department has been submitted.

Besides these, preparation of ten cases, to be utilised as teaching material in IIPA Courses, are in different stages of completion.

The research and consulting activities are, of course, in addition to training courses and extension lectures.

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*Dr. Virendra Gupta*, member of IIPA faculty, has been elected President of the Computer Society of India (Delhi Chapter) for the year 1974. This professional body is working towards advancement of theory and practice of computer sciences in the country.

Five temporary appointments made during December for different research assignments are: (i) *Shri Ashok Kumar*; (ii) *Kumari S.K. Tulsi*, and (iii) *Shri G. Venkataramani* as Research Investigators; and (iv) *Shri O.P. Sethi*; and (v) *Shri S.K. Deb* as Research Assistants.

Two staff members—*Shri N.C. Ganguly*, Statistician, and *Shri S.K. Kohli*, Superintendent (Administration)—were sent out on short-term training courses.

## RECENT DEVELOPMENTS IN PUBLIC ADMINISTRATION

The National Development Council unanimously approved the Draft of Fifth Five Year Plan in its last meeting in December.

The Draft Fifth Plan with a total outlay of Rs. 53,411 crores (Rs. 37,250 crores for Public Sector and Rs. 16,161 crores for Private Sector) has major objectives of removal of poverty and attainment of self-reliance through diminishing concentration of economic power by creating an efficient and dynamic public sector ensuring improvement in productivity—especially in agriculture—and by encouraging new entrepreneurs in areas suffering from lack of competitive investment. Public ownership of the financial institutions is to be used to exercise appropriate forms of social control.

The policy frame of the plan is as follows: (i) development with price stability, (ii) only a small fraction of investment to come from foreign assistance, (iii) import licensing to fit in with plan priorities, (iv) new fiscal policies to help energy substitution, and (v) exports to be made to yield more foreign exchange.

The strategy envisaged in the plan, among other things, is: (1) 5.5 per cent overall rate of growth of gross domestic product; (2) expansion of productive employment; (3) a National Programme for Minimum Needs; (4) extended programmes of social welfare; (5) emphasis on agriculture, key and basic industries producing goods for mass consumption;

(6) adequate public procurement and distribution system for essential consumption goods to poor people at reasonable prices; (7) vigorous export promotion and import substitution; (8) rigorous restraint on inessential consumption; (9) an equitable prices-wages-incomes balance; and (10) institutional fiscal and other measures for reduction of social, economic and regional inequalities.

The resources for the plan are to be raised in the following order: (1) Public Sector, Rs. 14,336 crores; (2) Financial Institutions, Rs. 739 crores; (3) Private Sector, Rs. 30,055 crores; and (4) Draft on Foreign Savings, Rs. 2,431 crores.

The following are the heads of development where an investment of Rs. 37,250 crores is to be made in the public sector (figures in parentheses indicate the percentage of each provision): Agriculture, Rs. 4,730 crores (20.1); Irrigation, Rs. 2,681 crores; Power, Rs. 6,190 crores (16.3); Mining & Manufacturing, Rs. 8,939 crores (24.0); Construction, Rs. 25 crores (0.1); Transport & Communications, Rs. 7,115 crores (19.2); Trade and Storage, Rs. 205 crores (0.6); Housing and Real Estate, Rs. 600 crores (1.6); Banking and Insurance, Rs. 90 crores (0.2); Public Administration and Defence, Rs. 98 crores (0.3); Other Services, Rs. 5,790 crores (15.5); and Hill and Tribal Areas, Rs. 500 crores (1.3). The details of heads included in 'other services' are, Education, Rs. 1,726 crores (4.6); Scientific Research Rs. 419 crores (1.1); Health,

Rs. 796 crores (2.1); Family Planning, Rs. 516 crores (1.4); Nutrition, Rs. 400 crores (1.1); Urban Development, Rs. 543 crores (1.5); Water Supply, Rs. 1,022 crores (2.8); Social Welfare, Rs. 229 crores (0.6); Welfare of Backward Classes, Rs. 226 crores (0.6); Labour Welfare, Rs. 57 crores (0.1); and Miscellaneous, Rs. 275 crores (0.7).

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On January 1, the *Andhra Pradesh* Government announced setting up of a Planning Board and three regional planning and development committees—one each for Telengana, Andhra and Rayalseema regions.

The State Planning Board is to prepare long-, medium- and short-term development plans and periodically evaluate the plans and programmes administered by State agencies.

The State's Chief Minister and Deputy Chief Minister are the Chairman and Deputy Chairman of the 15-member board.

According to the Government notification on the subject, recommendations of the Administrative Reforms Commission and the Planning Commission's suggestions were also taken into consideration in setting up the planning bodies.

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The Union Government have accepted all recommendations made by the Sixth Finance Commission (Chairman: *Shri K. Brahmananda Reddy*) without any alteration. The Union Finance Minister made a statement to this effect in the Lok Sabha on December 18. He also tabled a copy of the report in the House along with an explanatory memorandum on the action taken.

The recommendations are to be effective for a five-year period from April 1, 1974.

The Commission, in its 349-page report, has recommended increase in the states' share of income tax from 75 per cent to 80 per cent, a total of Rs. 1,970 crores as debt relief to the states for the first time, *status quo* in regard to state's share in excise duties, sharing of auxiliary duties of excise from 1976-77, grants-in-aid to states totalling Rs. 2,510 crores in five years and a substantial provision for backward states for raising their standard of administration and social services.

The Commission has not favoured the idea of setting up of a national fund for relief expenditure by the states affected by natural calamities.

The Commission has recommended continuation of the formula of share of each state to be determined on the basis of 90 per cent on population and 10 per cent on assessment.

The states will get Rs. 2,509.61 crores as grants-in-aid during the next five years. The Commission has, however, not taken into account net interest liability of states on account of fresh borrowings and lendings during the fifth plan period. The Commission has recommended that net interest liability on this account should be computed and grants-in-aid suitably modified. The Finance Minister told the House that action on this would be taken in due course.

The Commission has estimated non-plan revenue gap of 18 states at Rs. 7,745 crores without devolution of taxes between 1974-75 and 1978-79. Haryana, Maharashtra and Punjab are, in the assessment of the Commission, expected to have non-plan revenue surpluses amounting to

Rs. 312 crores even without any tax devolution. Tax devolution to all states during the fifth plan period, on the basis of the Commission's recommendations, would amount to about Rs. 7,099 crores. With this devolution, seven states will have a surplus aggregating Rs. 2,176 crores. The non-plan deficit arising even after devolution for the remaining 14 states is estimated at Rs. 2,510 crores and the Commission has recommended grants-in-aid of this order under Article 275(1) of the Constitution for 1974-79.

The Commission's recommendations fall into three categories—those to be implemented by an order of the President, those to be implemented by law of Parliament, and those to be implemented by executive orders.

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A Union Finance Ministry survey of credit policy for the last five years has shown that there has been a sectoral shift in the distribution of credit.

The survey shows that between March 1968 and April 1973, the share of large and medium industries declined from 60.6 per cent to 49.2 per cent, while the share of small scale industries improved from 6.9 per cent to 11.6 per cent.

It also shows that the proportion of credit to whole-sale trade, other than food procurement but including other public sector trading corporations, also dropped from 14.2 to 12.2 per cent.

The Ministry, in an assessment of the credit policy as a measure to check inflation, says that monetary policy "is not and cannot be a cure all". It feels that bank credit is only one factor in determining the price level.

"Price rise is the result of the simultaneous impact of many other

factors, namely, the output level in the economy, the distribution of essential commodities, public expenditure, hoarding and speculation and availability of funds from sources other than bank credit", it adds.

The Ministry feels that restriction or regulation of bank credit can only moderate the impact of other factors on price level and the effect of monetary policy "is limited by the fact that there are still segments of our economy which are not fully monetised".

The Ministry points out that despite the diversification of the economy after 20 years of planning, "agriculture still accounts for nearly 70 per cent of the population as the means of their livelihood".

Nearly 60 per cent of the total household consumption and 8.5 per cent of the commodity consumption of household comprises agricultural products or manufactures based principally on agricultural raw materials.

This being so, a major factor that has to be kept in mind while analysing price behaviour in India and the measures to regulate it, "is the trend in agricultural production".

Apart from the trend in agricultural output, the total availability of food grains, including imports, "will also have to be considered," adds the survey.

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The quick estimate of national income for the year 1972-73, prepared by the Central Statistical Organisation, shows an increase of 0.4 per cent over the previous year against 1.7 per cent in 1971-72 over 1970-71.

According to the estimate, based on 1960-61 prices, the net national

income for the year 1972-73 is estimated to be Rs. 19,101 crores with a per capita income of Rs. 337.50.

The fall in the rate of growth in 1972-73, is mainly due to a lower level of production in agriculture. At current prices, the quick estimates of net national income stood at Rs. 38,921 crores in 1972-73.

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All branches of foreign companies, barring airline and shipping companies operating in India, will have to convert themselves into Indian companies with a minimum Indian equity participation of 26 per cent. Companies incorporated in India will be required to have a minimum Indian equity participation of 26 per cent.

These guidelines have been formulated by the Union Finance Ministry under Section 29 of the Foreign Exchange Regulation Act. Details of the guidelines were placed in Parliament by the Finance Minister on December 20.

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The Union Government has decided to raise the maximum limit of profession tax from Rs. 250 to Rs. 1,000 per annum. Appropriate provisions to this effect are to be included in the next Constitution amendment bill.

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A draft bill, authorising levy of municipal taxes on the Central Government properties, is ready for introduction in Parliament. The bill is likely to come up for discussion in the forthcoming Budget Session.

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With a view to effecting economy in expenditure, the Government of Madhya Pradesh has imposed a ban on purchase of new light vehicles, viz., cars, jeeps, station-wagons, pick-ups, etc., during 1973-74 except in cases where they are wholly paid for by

the Government of India and international agencies.

The State Government has also adopted several measures to ensure economy in the use of Government vehicles in its different departments except the High Court, the Public Service Commission, the Vigilance Commission, and the Police Department.

Most important among these are:

(i) Government vehicles will now be allotted by name to officers in concerned departments in consultation with the Finance Department. The vehicles are not to be used for city runnings; (ii) In case of officers in the office of Head of Department, the maximum number of such vehicles has been fixed at two. (The scope of withdrawal of such vehicles from Block and Tahsil level officers is to be considered by concerned departments); (iii) Officers will not use Government vehicles in places connected by rail; and (iv) A pool of four vehicles is to be maintained at the Commissioner's headquarters and that of two vehicles at all collectates, and all surplus vehicles are to be returned to the State Garage or Departmental Garages.

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In order to provide a forum for resolving grievances of Uttar Pradesh Government employees at all levels and allowing them the right to bargain, the State Government has decided to constitute a joint consultative machinery on the pattern of the Union Government.

The Chief Minister of the State is reported to have said that the Joint Consultative Machinery will start functioning by the end of March 1974 and that a separate cell is already busy framing service conditions and regulations for the Government employees.



All gazetted and non-gazetted staff of *Uttar Pradesh* Government with three years' of continuous service, as on January 1, 1974, are to be confirmed according to a decision of the State Government.

The Government of *Andhra Pradesh* employees, numbering 5.5 lakhs, will get an increased dearness allowance at par with the central employees from January 1, 1974.

All employees drawing up to Rs. 300 will be entitled to an increase of 12 per cent. Those drawing between Rs. 300 and Rs. 1,200 will get a 9 per cent increase, subject to a maximum of Rs. 81 per month. The employees of Panchayati Raj institutions will be entitled to a flat increase of Rs. 5 per month.

As a result of the DA increase, the additional burden on the State exchequer will be Rs. 18 crores per year.

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The Government of *Punjab* has announced DA raise to its staff which will be exactly equal to the latest raise given to Central Government employees recently. Ranging between Rs. 12-81 per month, it will be admissible to those drawing up to Rs. 1,200 per month.

Five lakh employees of the State Government are to benefit from it which will cost the exchequer an additional expenditure of Rs. 6 crores a year.

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The Government of *Uttar Pradesh* announced, on January 1, enhanced Dearness Allowance at Central Government rates to all its employees, except those in Class I service of the Government, local bodies and aided educational and technical Institutions.

Effective from May 1973, the amount of DA will range between Rs. 12 to 27 per month. These higher rates of DA will be available to those only who are presently drawing up to Rs. 900 per month.

Over one million employees of the State Government are to benefit from it which will cover both categories of employees who have or have not opted for new scales of pay recommended by the Third Central Pay Commission.

The State Government would have to incur an additional expenditure of Rs. 24 crores per year on this account.

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The Government of *West Bengal* announced additional DA at a flat rate of Rs. 16 per month for January-March, 1974 to its employees. From April onwards the staff will get another raise of Rs. 8 per month in the DA. Accordingly, each employee will get Rs. 24 (16+8) per month from April onwards till the end of Fifth Five Year Plan period. About 6,42,000 employees of the state, including municipal employees and teachers working in non-governmental educational institutions are to benefit from it.

The Union Government has a right to appoint a commission to inquire into allegations against a State Government or the Chief Ministers of States, whenever it deems it advisable and in doing so, the Centre does not violate the State's autonomy. A statement to this effect was made on the floor of Lok Sabha on December 19 by the Minister of State for Home Affairs in reply to a question.

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The Government of *Haryana* has created a special cell, under the chairmanship of the State's Chief



Minister, which *inter alia* is examining the matters of allotment of nazul land, unallotted evacuee land for settlement of Haryana Harijans, their appointment and promotion in State services on the pattern of Government of India, location of their house sites in the State, etc., to enable them to join the mainstream of life in the State.

Earlier, in March 1973, a Standing Committee of Haryana Vidhan Sabha was set up on the pattern of the Parliamentary Committee for the welfare of Scheduled Castes and Scheduled Tribes. The Standing Committee consists of nine elected MLAs. It is to submit its annual report to the Vidhan Sabha and suggest ways and means for the betterment of social, educational and economic life of Harijans in Haryana and recommend to the Government effective measures for implementation of the schemes already undertaken by it.

\* \* \*

The Government of *Uttar Pradesh* has decided (on January 1) to set up a consultancy corporation to promote development of small scale industrial units in the State. Stationed at Kanpur, it will be in the shape of a public limited company with an authorised share capital of Rs. 50 lakhs.

The Corporation will provide entrepreneurs with necessary technical

know-how to set up new industries, including identifying industries which can profitably be set up with available raw materials and to meet product demand, and preparing project profiles and feasibility reports.

\* \* \*

The Government of *Uttar Pradesh* has decided to reorganise and modernise the police force in the KAVAL towns (Kanpur, Agra, Varanasi, Allahabad and Lucknow) and areas sensitive to communal trouble.

Under this plan, the force will be augmented and equipped with wireless sets, vehicles, etc.

Control rooms would also be set up in such areas. The KAVAL towns, besides Meerut, Bareilly and Moradabad, already have control rooms.

\* \* \*

The Government of *Uttar Pradesh* has appointed a one-man Committee to report on the working conditions of hospitals and dispensaries in the State. The government has lifted the ban on private practice by Government doctors and, in order to make non-practising posts of doctors in rural area more attractive, the non-practising allowance has been raised to a uniform rate of 50 per cent.



## DIGEST OF REPORTS

*Report of the Finance Commission, 1973, Controller of Publications,  
Government of India, 1973.*

The Sixth Finance Commission was constituted by a Presidential Bill dated 28th June, 1972. The Commission consisted of Shri K. Brahma-nanda Reddi as Chairman, and Shri Justice Abdul Masud, Dr. B. S. Minhas, Dr. I.S. Gulati and Shri G. Ramachandran as members. The Commission submitted its report on October 28, 1973.

The recommendations of the Commission regarding the various items referred to them are summarised below.

### I. Income Tax

In respect of distribution of the net proceeds of income tax in each of the financial years from 1974-75 to 1975-79:

1. Out of the net proceeds of taxes on income in each financial year, a sum equal to 1.79 per cent thereof be deemed to represent the proceeds attributable to Union Territories.

2. The percentage of the net proceeds of taxes on income, except the portion representing the proceeds attributable to Union Territories, to be assigned to the States, should be eighty.

3. The distribution among the States *inter se* of the share assigned to the States in respect of each financial year should be on the basis of the percentages indicated in Table 1.

TABLE 1

	<i>Percentage</i>
1. Andhra Pradesh	7.76
2. Assam	2.54
3. Bihar	9.61
4. Gujarat	5.55
5. Haryana	1.77
6. Himachal Pradesh	0.60
7. Jammu & Kashmir	0.81
8. Karnataka	5.33
9. Kerala	3.92
10. Madhya Pradesh	7.30
11. Maharashtra	11.05
12. Manipur	0.18
13. Meghalaya	0.18
14. Nagaland	0.09
15. Orissa	3.73
16. Punjab	2.75
17. Rajasthan	4.50
18. Tamil Nadu	7.94
19. Tripura	0.27
20. Uttar Pradesh	15.23
21. West Bengal	8.89
Total	100.00

### II. Union Excise Duties

(a) During each of the years, 1974-75 and 1975-76, a sum equivalent to 20 per cent on the net proceeds of Union duties of excise on all articles levied and collected in that year, excluding auxiliary duties of excise and cesses levied under special Acts and earmarked for special purposes should be paid out of the Consolidated Fund of India to the States.

(b) During the years, 1976-77,

1977-78 and 1978-79, a sum equivalent to 20 per cent of the net proceeds of Union duties of excise on all articles levied and collected in the respective year, including auxiliary duties of excise but excluding cesses levied under special Acts and earmarked for special purposes should be paid out of the Consolidated Fund of India to the States; and

(c) The distribution among the States of the sum payable to the States in respect of each financial year should be made on the basis of the percentages indicated in Table 2.

TABLE 2

	<i>Percentage</i>
1. Andhra Pradesh	8.16
2. Assam	2.71
3. Bihar	11.45
4. Gujarat	4.57
5. Haryana	1.53
6. Himachal Pradesh	0.63
7. Jammu & Kashmir	0.90
8. Karnataka	5.45
9. Kerala	3.86
10. Madhya Pradesh	8.15
11. Maharashtra	8.58
12. Manipur	0.21
13. Meghalaya	0.19
14. Nagaland	0.11
15. Orissa	4.06
16. Punjab	1.87
17. Rajasthan	5.00
18. Tamil Nadu	7.43
19. Tripura	0.30
20. Uttar Pradesh	17.03
21. West Bengal	7.79
Total	100.00

### III. Additional Duties of Excise

(1) There is no need to set apart any guaranteed amounts to the States as there is no risk of the share of any State in the net proceeds of additional excise duties falling short of the

revenue realised from the levy of the sales tax on the commodities subject to additional duties of excise in lieu of sales tax for the financial year 1956-57 in that State.

(2) The net proceeds of the additional excise duties during each financial year be distributed on the following basis:

(a) A sum equal to 1.41 per cent of such net proceeds be retained by the Union as attributable to Union Territories;

(b) The balance of 98.59 per cent of such net proceeds be distributed among the States in accordance with their respective percentage shares of such balance as indicated in Table 3.

TABLE 3

	<i>Percentage</i>
1. Andhra Pradesh	8.39
2. Assam	2.47
3. Bihar	9.36
4. Gujarat	5.91
5. Haryana	1.94
6. Himachal Pradesh	0.59
7. Jammu & Kashmir	0.73
8. Karnataka	5.62
9. Kerala	3.58
10. Madhya Pradesh	6.98
11. Maharashtra	11.65
12. Manipur	0.17
13. Meghalaya	0.17
14. Nagaland	0.08
15. Orissa	3.59
16. Punjab	2.68
17. Rajasthan	4.17
18. Tamil Nadu	7.27
19. Tripura	0.25
20. Uttar Pradesh	16.10
21. West Bengal	8.30
Total	100.00

*IV. Grant in lieu of Tax on Railway Passenger Fares*

The grant to be made available to the States in lieu of the tax under the repealed Railway Passenger Fares Tax Act, 1957 be distributed among the States as indicated in Table 4.

TABLE 4

	Percentage
1. Andhra Pradesh	8.01
2. Assam	2.70
3. Bihar	10.58
4. Gujarat	7.47
5. Haryana	2.57
6. Himachal Pradesh	0.17
7. Jammu & Kashmir	0.02
8. Karnataka	3.47
9. Kerala	1.61
10. Madhya Pradesh	9.89
11. Maharashtra	8.87
12. Manipur	...
13. Meghalaya	...
14. Nagaland	0.01
15. Orissa	2.24
16. Punjab	5.06
17. Rajasthan	6.59
18. Tamil Nadu	5.14
19. Tripura	0.02
20. Uttar Pradesh	19.85
21. West Bengal	5.73
Total	100.00

*V. Estate Duty*

(1) Out of the net proceeds of the estate duty in each financial year, a sum equal to 2.5 per cent thereof be retained by the Union as being the proceeds attributable to Union Territories; and

(2) The balance of net proceeds be distributed among the States in accordance with the following principles:

(a) Such balance be first apportioned between immovable property and other property in the ratio of the

gross value of all such properties brought into assessment in that year;

(b) The sum thus apportioned to immovable property be distributed among the States in proportion to the gross value of the immovable property located in each State and brought into assessment in that year; and

(c) The sum apportioned to property other than immovable property be distributed among the States in proportion to the population of each state as indicated in Table 5.

TABLE 5

	Percentage
1. Andhra Pradesh	8.04
2. Assam	2.70
3. Bihar	10.41
4. Gujarat	4.93
5. Haryana	1.86
6. Himachal Pradesh	0.64
7. Jammu & Kashmir	0.85
8. Karnataka	5.41
9. Kerala	3.94
10. Madhya Pradesh	7.70
11. Maharashtra	9.31
12. Manipur	0.20
13. Meghalaya	0.19
14. Nagaland	0.10
15. Orissa	4.05
16. Punjab	2.50
17. Rajasthan	4.76
18. Tamil Nadu	7.61
19. Tripura	0.29
20. Uttar Pradesh	16.32
21. West Bengal	8.19
Total	100.00

#### *VI. Grant on Account of Wealth Tax on Agricultural Property*

The grant to be made available to the States be distributed among the States in proportion to the value of agricultural property located in each State and brought into assessment in each year.

#### *VII. Grants-in-Aid*

The following States be paid the sums specified against each of them as grants-in-aid of their revenues in the respective years indicated in Table 6 under the substantive part of clause (1) of the Article 275 of the Constitution.

#### *Recommendations on other Terms of Reference*

In the light of the analysis of the advantages and disadvantages of the establishment of a National Fund, and the views expressed by the State Governments, the Commission has concluded that such a fund, fed by Central and State Contributions is neither feasible nor desirable. At the same time, the present arrangements for providing assistance to the States for meeting expenditure on relief operations need to be completely overhauled. Detailed programmes of both medium and long time significance for permanent improvement of the areas liable to drought and flood should be drawn up with the utmost urgency and these programmes fully integrated with the Plan. The Commission urges that instead of incurring expenditure on relief on *ad hoc* basis on schemes of dubious value, provision should be made on a much larger scale for the development of drought and flood-prone areas in the Fifth Plan both in

the State and Central Sectors. Any assistance which is provided to the States for purposes of relief in this manner would be subject to the overall ceiling of central assistance for the Plan period as a whole. At the same time, the Commission feels that the provision of a reasonable margin in the forecasts of State expenditure should be considered as a legitimate charge on the revenue accounts of the States. The Commission recommends the following annual provision made "64-Famine Relief" for different States (see Table 7, page 245).

The Commission has taken these figures into account in arriving at the grants, if any, needed by the state under Article 275 of the Constitution.

#### *Changes in the Terms of Repayment of Central Loans.*

The Commission has made an assessment of the non-plan Capital gap of the States on uniform and comparable basis for the five years ending with 1978-79. The Commission has made a general review of the States' debt position with particular reference to the central loans advanced to them and likely to be outstanding as at the end of 1973-74 and has recommended changes in the existing terms of repayment having regard to all relevant factors including the overall non-Plan gaps of the States, their relative position, the purposes for which the loans have been utilised, and the requirements of the Centre. The Commission's proposals for consolidation of outstanding central loans and revision of their terms of repayment are estimated to ensure relief in the amount falling due for repayment by the States to the Centre over the period 1974-79 as indicated in Table 8, page 245.

TABLE 6

Rs. in crores.

Sr. No.	Total amount to be paid in five years	Grants-in-aid to be paid in			
		1974-75	1975-76	1976-77	1977-78 1978-79
1. Andhra Pradesh	205.93	42.83	43.47	41.89	39.45 38.29
2. Assam	254.53	49.66	51.33	50.60	51.35 51.59
3. Bihar	106.28	18.78	23.92	21.12	21.53 20.93
4. Himachal Pradesh	160.96	31.72	32.02	32.15	32.42 32.65
5. Jammu & Kashmir	173.49	34.57	34.65	34.73	34.83 34.71
6. Kerala	208.93	43.85	43.46	41.19	40.92 39.51
7. Manipur	114.53	21.05	21.97	22.85	23.84 24.82
8. Meghalaya	74.67	13.61	14.23	14.90	15.63 16.30
9. Nagaland	128.84	23.77	24.68	25.72	26.77 27.90
10. Orissa	304.73	56.97	60.11	61.00	62.56 64.09
11. Rajasthan	230.53	49.30	48.57	46.05	44.30 42.31
12. Tripura	112.50	20.66	21.53	22.44	23.45 24.42
13. Uttar Pradesh	198.83	21.61	33.91	39.23	49.10 54.98
14. West Bengal	234.86	53.29	49.27	46.57	44.55 41.18
Total	2,509.61	481.67	503.12	500.44	510.70 513.68

TABLE 7

	<i>Rs. Crores</i>
1. Andhra Pradesh	4.31
2. Assam	1.25
3. Bihar	4.61
4. Gujarat	4.55
5. Haryana	1.24
6. Himachal Pradesh	0.03
7. Jammu & Kashmir	0.35
8. Karnataka	1.91
9. Kerala	0.30
10. Madhya Pradesh	3.41
11. Maharashtra	4.17
12. Manipur	0.04
13. Meghalaya	0.04
14. Nagaland	0.02
15. Orissa	3.58
16. Punjab	0.33
17. Rajasthan	10.19
18. Tamil Nadu	1.52
19. Tripura	0.07
20. Uttar Pradesh	2.18
21. West Bengal	6.61

TABLE 8

ESTIMATED RELIEF IN REPAYMENT OF  
LOANS TO THE CENTRE DURING THE  
FIFTH PLAN PERIOD ON THE BASIS OF  
THE COMMISSION PROPOSALS

	<i>Rupees in crores</i>
1. Andhra Pradesh	191.20
2. Assam	164.49
3. Bihar	133.35
4. Gujarat	36.25
5. Haryana	33.14
6. Himachal Pradesh	34.57
7. Jammu & Kashmir	133.43
8. Karnataka	127.04
9. Kerala	109.77
10. Madhya Pradesh	87.16
11. Maharashtra	66.58
12. Manipur	15.23
13. Meghalaya	7.64
14. Nagaland	5.84
15. Orissa	157.32
16. Punjab	15.18
17. Rajasthan	258.14
18. Tamil Nadu	87.05
19. Tripura	14.35
20. Uttar Pradesh	150.77
21. West Bengal	143.12
Total	1,969.62

## BOOK REVIEWS

*Communication in India—Experiments in Introducing Changes* by J. E. KIVLIN, PRODIPTO ROY, F.C. FLIEGEL, LALIT K. SEN; National Institute of Community Development, Hyderabad, May 1969, pp. iv+56, Rs. 4.00.

*Readings on Micro-level Planning and Rural Growth Centres*, Ed. by LALIT K. SEN, National Institute of Community Development, Hyderabad, July 1972, pp xv+350, Rs. 35.00

While both the books are concerned with rural development; the approaches to the subject, focus of interest, and problems highlighted, differ vastly.

*Communication in India* is part of a project on the study of the Diffusion of Innovations undertaken jointly by the Michigan State University and the National Institute of Community Development and is a follow-up to the 1967 NICD report on *The Impact of Communications on Rural Development in India*.

The study team concentrated on six villages near Lucknow that had already been surveyed twice and been found to be similar in nature. Two villages were then subjected to the impact of radio-farm forums, two to literacy classes, and two were left devoid of any specific communicational stimuli. An effort was made to see how the attitudes of the villagers responded to the new communicational inputs they were receiving and whether the entire village system's responsiveness to change and innovation was affected or not. The indicators used were the knowledge, trial, and adoption of agricultural, health, individual and family planning practices, and the attitudes towards social change as they existed before

and after exposure to the communicational influence. Also tested were other variables like the extent of transformation, if any, in internal communication system of the village (that is the relationship of the opinion leaders to the others), or the general changes induced in the individual's awareness—and opinion-maps of the villagers. It was found that the radio farm forum villages showed the most "Progress" (measured in terms of the indices already listed), followed by those exposed to literacy classes. It was realized that a lot of farming practices continued to be similar in all six villages and that levels of adoption of all practices were low in all villages. Still the impact of radio was found to be immense and, since the literacy classes had cost more, in terms of time and money, than the radio forums, it was concluded that a well-run radio-farm forum should result in rather immediate accelerated development. Literacy programmes should be considered either as a long-term investment in development or as a social welfare measure.

It would be presumptuous to evaluate this effort at correlating communication and rural development only on the basis of this one book. The authors state that they hope the villages shall eventually



reach a stage of take-off, when fresh communicational aid may not be necessary. While hoping for the same, one cannot judge the validity of their conclusions without a look at all the reports of the project on Diffusion of Innovations. If we view the book independently, then the limited nature of the sample becomes glaring.

*Readings on Microlevel Planning* is a much more ambitious effort. Asserting that, for effective development, integrated (as opposed to sectoral) planning at the lowest levels is an imperative, Sen has put together a number of lectures delivered at the National Institute of Community Development in 1970-71 on the theory of the selection and location of rural growth centres to serve as the focus of integrated planning for the development of small areal units. The entire exercise, it is hoped, will lead to a more scientific concept of district-level planning, (Foreword, p.v). The absence of empirical illustrations is admitted by Sen, as is the fact that the articles are slightly loose in structure, since they are in reality unedited lectures that have been taken down by stenographers. It would perhaps be best to view the compilation as serving the purpose of a theoretical framework for future empirical study that is now being indulged in by Sen and others.

The book is divided into five parts. The first sets forth the need for micro-level planning in India and defines the concepts, especially those of rural growth centres and integrated planning. The second part analyses the rural infrastructure taking up such variables as agriculture, cooperatives, rural credit, communications, education, administration, industries, demography, social imbalances, and the role that small towns can play in inducing rural change. These variables are dealt

with separately (sector-wise) only so that each can later be placed appropriately in the integrated plan. The third part deals with concepts and methodological tools for the siting and locating of a "central-place" and the delineation of its hinterland, and the development of a growth model for such an area, followed by a survey of existing research literature. Part four describes the rural planning process as followed under the first four Plans and offers a critique of the existing sectoral approach. The fifth part suggests ways of linking integrated (central-place-based) area plans with national plans, either with or without the help of intermediary regional plans. Sen's final chapter on Guidelines for the Preparation of a Micro-level Plan has been enlarged by him into a training volume *Integrated Area Planning—Concepts and Methods* (Department of Personnel, Cabinet Secretariat, Delhi, September 1972), where the need for district or block level plans and a suggested procedure for the formulation of such plans is fully spelt out. It has also been suggested that the District, Block, or Taluka (Tehsil) may be the only practicable unit for such integrated plans as have been advocated by the compilation under review.

Being a theoretical volume, *Readings...* can best be tested only on the basis of the efficacy of plans formulated in the manner recommended by it. While that is not yet possible, studies made on the basis of the framework set out in this book, one example of which is Lalit K. Sen (ed.) *Planning Rural Growth Centres for Integrated Area Development: A Study in Miryalguda Taluka* (NICD, Hyderabad 1971), seem to indicate that the approach is sound, though one shall have to wait for more results of the Research Project on Integrated Area Development and Rural Growth Centres of the NICD,

before passing final judgment. Other thinking of the subject of District Planning, though less theory-oriented, also seems to be pointing in roughly the same general direction, as is indicated by, to take but three examples, D.R. Gadgil, *District Planning* (Bombay, Asia 1967) with its concept of "mandi-areas", *Guidelines for the Formulation of District Plans* (Planning Commission, Delhi 1969), and

*Working Paper on District Planning Officers' Training Programme* (Institute for Social and Economic Change, Bangalore, 1973). However, these other works all approach the problem in a more pragmatic, less theory-oriented manner, from the integrated District Planning side and only later develop "Economic Area" type concepts.

—RAKESH HOOJA

*Comparative Public Administration* by RAMESH K. ARORA, New Delhi, Associated Publishing House, 1972, p. 191, Rs. 30.

Dr. Ramesh Arora's 'Comparative Public Administration' (An Ecological Perspective) is a very welcome addition to a rather new and yet to establish sub-discipline of Public Administration. Originally approved as a doctoral dissertation by the University of Kansas (1971), the study attempts an analytical 'overview of the environment as well as the substance of the emergent field of comparative public administration'. As noted by the author, the major purpose of the study is to elaborate the essential elements of the "ecological" approach to public administration. In this attempt, the study is claimed to be the first attempt to evaluate the context as well as the contents of comparative public administration and to synthesize the models of Weber and Riggs from the ecological developmental perspective.

a particular national system needs the stimulation of intensive *conceptual analysis*'. This has been well achieved by Dr. Arora in his thesis that 'assuming the need to respond to the universal challenge of rapid and fundamental change—ecological and developmental perspectives of comparative public administration require further strengthening'.

The volume—crisply written and neatly phrased—has indeed accomplished the task successfully. The findings in the study have been adequately conceptualized which makes it easy to assimilate and appreciate. As Prof. Edwin O. Stene in his Foreword rightly remarks "administration is an art as well as a field of scientific study... while the generalization may be cross-cultural in large part, the art of applying them for the development of

The evolution of comparative public administration as outlined makes an interesting study. Right from the comparative elements in early administrative theory, to the more recent behavioural movement, and the comparative politics movement, there runs a common thread which seeks to emphasize the cross-cultural components of comparative public administration. Even in the intensive study of the subject in U.S., it has been noted by serious analysts that comparative public administration has borrowed concepts, tools and findings from various social sciences to develop an interdisciplinary orientation. Even though Siffin (1957) described comparative public administration as a field abounding in confusion and novelty, a few essential conceptual bases have been identified from time to time. According to Dr. Arora, the three major conceptual approaches in comparative public

administration—the bureaucratic system, the general system, and the development administration—should be viewed as mutually interdependent and not as discretely categorized orientations. The first concept, the bureaucratic system approach leads to an interesting analysis of the various meanings of bureaucracy. The author has stressed and rightly so, on two broad types of emphasis; structural and functional even though as is explained in comparative public administration studies, the term bureaucracy is used to 'depict administrative systems of all contemporary nations, regardless of the particular social environments in which such systems operate'.

The inter-relationship of bureaucracy and political systems, an important aspect of comparative public administration has several unresolved dimensions. In fact, one might add the dilemma in this regard of developing countries with varying stability patterns of political structures. Dr. Arora finds a link in the different issues concerning political control over bureaucracy and those pertaining to the balance and imbalance in the political system. He has rightly observed, "The ecological perspective, however, is still underdeveloped in the study of the interaction of the bureaucracy with other components of the political system." Any reference to ecology is, however, incomplete without an examination of Riggs' 'Administrative Ecology'. The author feels that the 'Weberian and the Riggsian analysis somewhat compliment each other in the study of cross-cultural administrative patterns.' In fact, he discerns Weber's influence on Riggs in the construction of ecological models. Today, several studies have attempted to analyse the Weberian and Riggsian typologies, but as Dr. Arora has noted, it is important

that both the ecological and developmental perspectives should be included for comparative administrative models.

To students of comparative public administration in India, the subject of development administration has a special interest. There have been significant interpretative writings on the subject by several scholars and a formal training course on Development Administration as part of the Executive Development Programme has been conducted for several years at the Indian Institute of Public Administration. Dr. Arora's analysis of the 'economic context' of development administration appears most relevant. According to him, 'in contemporary modernized States, economic growth preceded administrative reform, while in most of the developing countries it has been the opposite. . . . A lack of development-oriented structural and behavioural patterns has been a major cause of the low success of planning in most developing countries'. Many of us as students of development administration may or may not agree with the burden of Dr. Arora's analysis but his important conclusion that despite the significance of the subject, students of development administration have not studied extensively the relationship between administrative development and economic growth, will remain undisputed.

Dr. Arora's analysis of the comparative public administration finally culminates in the chapter, "The Idea of Ecology and the Ecology of Ideas". The rationale is the realization that a cross-cultural analysis of public administration should be ecological in character which leads to, what might be called the ecology of ideas. Apart from the question of semantics, the subject of ecology in comparative public administration today stands

well dissected. In fact, a number of fundamental questions have been raised covering a wide area encompassing the processes of modernization and the inherent 'cultural diversities'. Dr. Arora suggests four principal dimensions—ecological, role-orientation, developmental and cross-cultural comparability for conceptualizing the issue of ecology. He is ultimately hopeful and optimistic when he finally states: 'In the foreseeable future, comparative public administration is likely to strengthen its own identity, although, eventually, a desirable course could be a gradual

convergence....'

The Indian Council of Social Science Research, New Delhi, deserves our grateful thanks for supporting financially the publication of Dr. Arora's scholarly and well documented study. However, the task initiated by Dr. Arora will only be strengthened and pushed forward, if Indian scholars attempted to provide a gradual convergence of Indian Public Administration and its comparative counterparts elsewhere!

—A.P. SAXENA

*Child Welfare: Existing Conditions and Parental Attitudes* by B.C. MUTHAYYA, Hyderabad, National Institute of Community Development, 1972, Rs. 20.00

As elsewhere, so in India, it is said that children constitute the most important assets of the nation. Systematic studies of conditions under which children are growing in India, however, are far and few between. The present study by Shri B.C. Muthayya and members of his team, is, therefore, to be welcomed.

It may be noted that this study has been funded by an overseas organization—Netherlands Foundation for Child Welfare, Amsterdam. Recently, in 1970, UNICEF funded a seminar on the preschool child and also made it possible to have a quick survey of status of services for children in the age group 0-6 years. UNICEF found money for studying conditions in which children and youth were growing in urban India and subsequently, for drawing up proposals for integrated services for children and youth in 11 Indian cities. One may raise a question as to when Indian resources in money and men are going to be available for studying conditions of children and youth, on the needed scale. It seems

that, for various reasons, the role of research in policy and programme planning is not adequately appreciated. Committees and *ad hoc* study teams can do this job up to a point but these are no substitute for sustained systematic research.

The research project presented in the book under review was conducted in the Chevella block of Hyderabad District of Andhra Pradesh, and aimed at collecting 'factual data regarding the child and its environment as well as the attitudes of the villagers on certain aspects to form basis for drawing up long range programmes' (preface). This seems to have been the expectation of the sponsors of the research project—the Netherlands Foundation, as well.

The book has eight chapters spread over 184 pages. Introduction, salient features of the concerned district and the block; methodology; socio-economic conditions of respondents; existing conditions in health and health practices, nutritional and hygienic habits and child

rearing practices; inter-dependence of some socio-economic variables; awareness of and attitudes to the programmes and facilities—and salient findings and implications are in brief the titles of the chapters in which the subject matter is distributed.

Methodology followed by the research team in selecting villages, respondents for the fact finding and attitudinal surveys and treatment of data has been meticulously explained in detail. One notices that starting of work on *ad hoc* basis in some villages has operated as a constraint on the choice of villages and subsequently in understanding the citizen's response to *ad hoc* programmes. The programme and research project almost seem to have been initiated simultaneously. The researchers had, however, coped with this and other constraints well.

The book contains some material which has little *direct* relevance to child welfare. This observation becomes more applicable to chapter number IV (33 pages) on socio-economic conditions of the respondents and to parts of chapter VII (79 pages). The information is otherwise important and interesting but less relevant to the core of the subject under study. The situation could have been saved, if the author would have made an effort to bring out the relevance of all this material in a few paragraphs. While every study could be used to collect as much material as possibly can be collected, it could be analysed and brought out, if necessary, in more than one report, each woven coherently around a single theme. If this approach would have been followed, the report in relation to child welfare could have been more compact and also might have gained a sharper focus.

Not having defined the child as a

person with a certain age, throughout the book the term child refers to persons of varying ages. In one place there is a mention of children below 15 years of age (page 2) and elsewhere, later, it is said that respondents 'had children studying in colleges' (page 31).

One will agree with the author when he says that 'state of affairs of our children' in India is 'pathetic' but one may differ from him in the 'welcome' he accords to 'public-spirited international projects' (page 3) which seem to mitigate children's suffering and work as catalysts. The author himself says on the same page that 'chronic poverty is a barrier' but 'even within limited budget' serious effects of 'unbalanced nutrition for a large majority' could be mitigated and affirms that 'the problem is not of poverty alone but poverty coupled with ignorance'. Link between poverty and ignorance can be snapped by education. In using education as an instrument of development, India seems to have failed. The author's reason for the 'welcome' seems to be the following: "Judged in the light of the prevailing socio-economic conditions of the people, it is doubtful whether they will be in a position to contribute in any way to sustain such a programme" (page 183). The author could have demanded modification of these conditions but he chooses instead to recommend foreign-aid based programmes.

The following observation by the author is a sad commentary on the goal-defeating manner in which social welfare programmes in India are operated: "The services rendered to the children through supply of nutritive food or promotion of health by official or quasi-official organisations have planted the idea in the minds of the villagers that it is all

government's responsibility, and that their own share in sustaining the child welfare programme is very little." Whether social responsibility or social irresponsibility gets promoted through a programme among user-citizens depends on the way social welfare policies and programmes are formulated and implemented.

A word about the implications (and so suggestions) that the author has brought out of the findings. Suggestions like high school within 10 mile radius, mid-day meal as an incentive, programme for *mahila mandals*, etc., and there is a long list of these implications-cum-suggestions, contain the fairly known strategies in the established framework of thinking and practices in the field of child welfare which have not yielded satisfactory results. There are, however, still a number of interesting findings on early marriages, girls not going to school, attitudes of men and women to programmes, family planning, school drop-outs, development of physical handicaps, using private doctors in place of public health services, etc., which can help both planners and operators of child welfare services.

Suggestion of having 'preventive measures against infection coupled with the popularization of cheap and available protein-rich foods', is a sound one. Supply of nutritive food and mother's effective education on balanced diet which the author wishes to have achieved through 'combined and co-ordinated mother-child service' really has a considerable potential for the well-being of children. Ill-health and malnutrition among children are so closely linked up with those prevalent among mothers that these problems can be combated only by working on both—the mother and the child.

The dominant impression that the book leaves on the mind is that health services protecting expectant and nursing mothers and children, possibilities of their consuming right types of food, supportive services for pre-school education or care of children, parental education and involvement of the community in child welfare programmes are the areas in which the work for welfare of children needs to be concentrated in the present context. The guiding principles of policy significance that emerge out of this study according to the reviewer, therefore, are: (i) educate people with a view to removing ignorance and unhelpful religious and traditional beliefs and to helping them achieve rational and scientific outlook on life to the extent necessary; (ii) help people to do things by themselves, though the progress would be slow and journey arduous; and (iii) improve economic conditions of the low income groups. Short-cut of too much aid-based programmes may not be desirable as, on their withdrawal, there is usually relapse to old ways of life.

The author and his team of this important and rare study of conditions of children in rural India, had an opportunity to visualize a self-help, a self-reliant programme involving primarily the people, voluntary agencies and the governmental institutions at various levels; but their plea is for aid-oriented, almost an aid-dependent programme! This is no reflection on the overseas inter-governmental and non-governmental agencies that are making a brave effort to help achieve a break-through in child welfare activities in India, according to their own understanding of the situation.

*Bureaucratic Response to Development* by KULDEEP MATHUR, National Publishing House, Delhi, 1973, p. 121, Rs. 16.00

This volume is the result of a study originally made for a doctoral dissertation of the university of Hawaii. It is a sociological study to investigate the background and attitudes of "bureaucrats at the grass level" in Indian administration.

For this purpose, the Block Development Officer, in the Panchayati Raj system has been chosen as the "cutting edge of the Government interaction with citizen". Two contiguous states—Uttar Pradesh and Rajasthan—were chosen for a comparison of the attitudes of similar cadre of officials. The actual study was conducted through selection of a random sample of BDOs to whom a survey questionnaire was sent. In all, about 89 officers were polled—40 in Rajasthan and 49 in U.P.—to obtain a "better picture of the social variables that shape public administration".

Statistical and mathematical tools were applied to discover the underlying linkages between background and attitudes, to delineate the major dimensions of bureaucratic awareness of development and to compare the two states in those dimensions. Briefly, the study seems to indicate that Block Development Officers, in a majority of cases, have a rural background but seek an urban future for their children. Most of them, however, desire their children to go to technical professions rather than for government service.

The most dominant motif in the thinking of the BDO would seem to be the suspicion of the politician and the poor esteem in which he is held. Significantly, this is more pronounced in a state like Rajasthan which, till recently, had a feudal tradition and there was comparatively little rapport

between the politician and administration. On the other hand, most respondents had confidence in their own efficiency and abilities. Most of the BDOs (77.5%) feel the past was better than the present and taking those who felt 'no change' was necessary, the proportion was even higher (84.4%) which is none too happy a situation amongst those who are often identified as 'agents of change' in rural societies.

There is no evidence from the study that in spite of constant exhortation from the political leaders, the BDOs have any higher level of commitment to public service than other ranks of administration. More than half (58.2%) were those whom the author describes as "power monopolisers" who resent sharing power with any other group of people. In obtaining predictable linkages, technical education has been strongly correlated with 'power-monopolising' and 'negative seniority' (whatever that might mean) with cynicism. Finally, the study seems to indicate that the bureaucratic system itself has a greater influence in shaping attitudes and behaviour than social and cultural backgrounds.

A study such as has been described in the book under review is a useful addition to the scanty literature on this important facet of administrative behaviour. It is also good that the focus of the study is on a middle level officer who is often—and rightly—described as the 'kingpin' of the PR system of Administration. However, one wonders whether the sample of the BDOs chosen is not too small to draw any valid conclusions. Further, the two states studied—U.P. and Rajasthan—are somewhat too much alike to make any meaningful distinctions. One would have liked to



see a comparison made between one of these states and either Tamil Nadu or Kerala where the socio-cultural backgrounds are widely different.

The word 'Response' in the title of the book seems, in retrospect, to be slightly misleading. One would have expected that response to be in the shape of performance evaluation of the work of the BDO. The author need not have contented himself with merely analysing answers to a questionnaire but could have linked it with the performance of the respondents under actual field condi-

tions. Admittedly, such an effort requires greater field study but, in the ultimate analysis, it is not what the BDO 'says' that is terribly important but how he reacts under the stress of actual conditions—but perhaps, that may be expecting too much from, what is after all, a doctoral thesis.

There is a useful bibliography at the end of the book. The price of the book is on the high side, even allowing for the allround increase in production costs.

—RAM K. VEPA

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## EDITORIAL

**W**E have great pleasure in presenting our readers the second issue of Volume XX of the Indian Journal of Public Administration.

We begin with an article by Dr. Ram K. Vepa on 'Implementation—The Problem of Achieving Results'. It is a well-known fact that in most developing countries the greatest difficulties are encountered, not in the adumbration of plans, but in their implementation. Realising the need for a careful study of these problems which have to be surmounted during the implementation stage, EROPA invited experts from various South Asian Countries to write Case Studies relating to specific sectors of development planning, pursued in their respective countries. These Case Studies after an initial discussion at a conference were finalised and presented at a meeting in Tokyo. Dr. Vepa, who contributed a Case Study on the setting up of Industrial Estates to help in the development of the small scale industry, analyses in his article the various Case Studies presented. The article is of interest, since it highlights the reasons for the success or otherwise of some of the plans. It also compares the methods of implementation followed in different countries from which flow relevant lessons for administrators and others interested in implementing developmental plans. In this connection, we would like to draw the attention of our readers to an article by Shri P. P. Agarwal on 'Some Aspects of Plan Implementation' published last year in Vol. XIX, No. 1. That article dealt with certain related but slightly different aspects of the same problem. We will also be publishing later this year an article by Prof. Nitish De on some other aspects of the same problem.

The allocation of the share of the States in the income tax revenues of the country has been a delicate problem which various Finance Commissions have had to face. It raises a number of administrative and political issues. Prof. Himat Patel's article on the subject is timely, especially in the context of the report of the Sixth Finance Commission.

We have in the present issue two articles on administrative aspects of Social Science Research. The first article by Dr. S.C. Jain won the second prize in the Annual Essay Competition conducted by IIPA last year, and deals with the application of Social Science Research in Administration. The other article by Shri V.G.K. Thathachary breaks some new ground as the author analyses the way in which Social Science Research is administered in the country. The administration of Social Science Research is itself of great social significance. It holds promise of new possibilities for the development of the science and art of administration and management in the country.

Prof. Jon T. Quah evaluates in his article the effectiveness of the Public Service Commissions set up in the new states of Asia. These commissions, modelled on the British example have been established in the emerging countries of Asia and an assessment of their performance throws considerable light on certain vital aspects of personnel management in these countries.

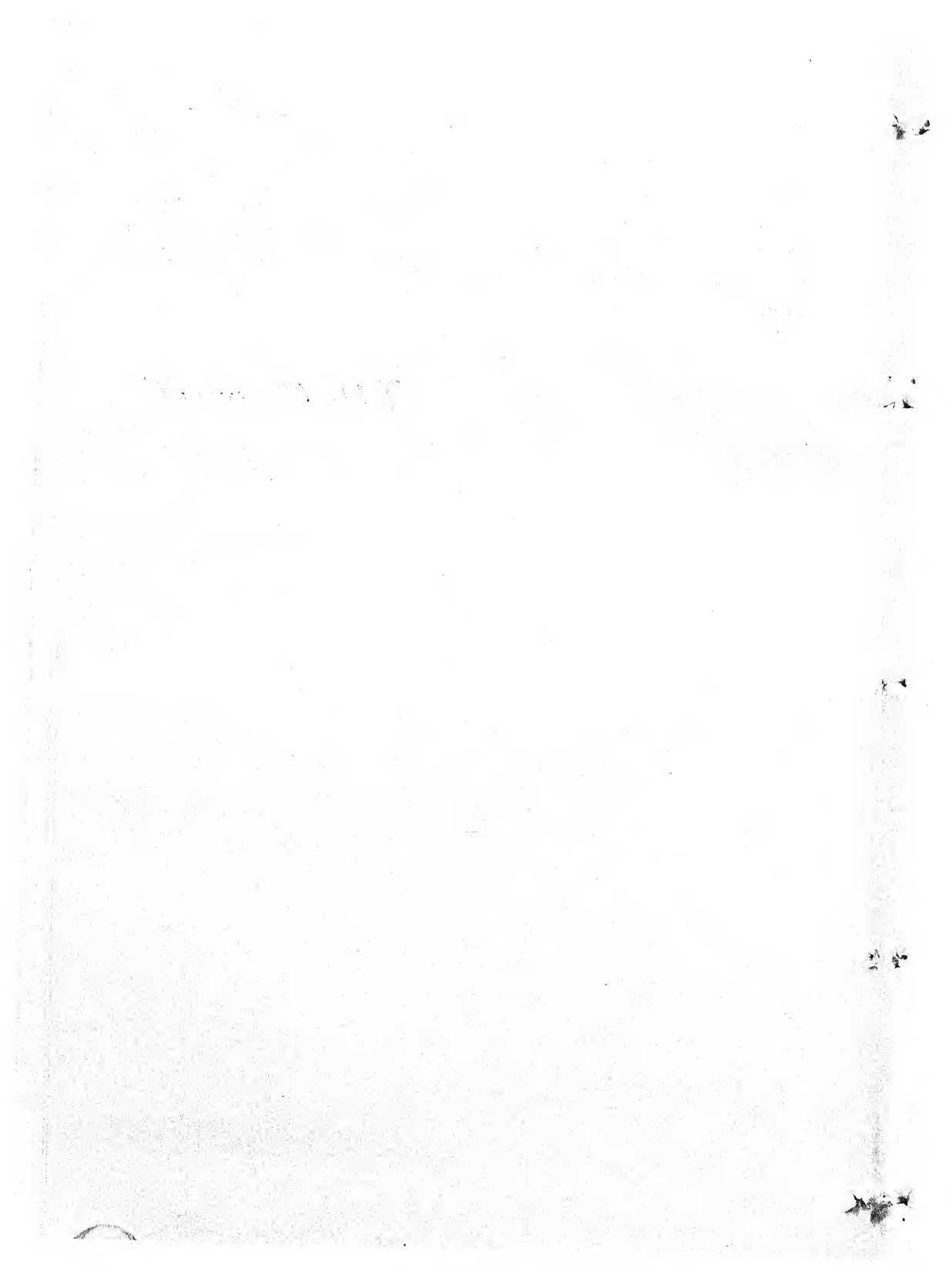
Planning for Comprehensive Development in a Region is the subject of Shri Raipuria's article, which is of special relevance to us in India, in view of the recent emphasis on multilevel planning in the country. It may be recalled that we had devoted last year's special number to Multilevel Planning which was widely welcomed.

Shri Gopalakrishnan has presented an analytical study of Financial and Personnel Administration in Canada. While, to many, Canadian experience may not have direct relevance in the Indian context, the article provides ample food for thought to students of public administration.

We would like to take this opportunity of requesting all our contributors to send their articles, reviews, etc., for publication in duplicate.

Similarly, publishers and authors are requested to send two copies of every book they wish us to review. We are keen to strengthen our Book Review Section by bringing to the notice of our readers the latest books on public administration and management and public policy. We would also request our esteemed readers to send their suggestions regarding the contents and the coverage of areas of public interest in the Journal in times to come.

*T.N. Chattervedi*



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## IMPLEMENTATION—THE PROBLEM OF ACHIEVING RESULTS

*Ram K. Vepa*

ONE of the important lessons most developing countries are learning painfully is the fact that planning does not always guarantee a successful development programme. Even India, where the techniques of planning had reached a high level of expertise for over two decades had to learn, in the words of Prime Minister Jawaharlal Nehru, that “we are not so expert at implementation as we are at planning”. More recently, Smt. Indira Gandhi, the Indian Prime Minister reminded the high level National Development Council that “any plan is only as good as it achieves”. Albert Waterson has stated in his analytical study on *Development Planning* that planning *per se* and the existence of a plan do not by any means ensure effective implementation. In many cases, national plans are little more than assumption or even just wishful thinking. It is, therefore, no great surprise that the net impact of many of the grandiose plans is often limited and planning itself is no longer looked upon as the talisman for curing the ills of society, as it used to be regarded some years back.

It was because of this growing dichotomy between planning (on paper) and implementation (in the field) that the General Assembly of the Eastern Regional Organisation in Public Administration (EROPA) at its Manila session held in May, 1971 authorised its Executive Director to look deeper into this problem and see whether case studies on the subject could be compiled which might give a fresh insight into the process of implementation. Accordingly, experienced administrators or distinguished scholars in the member countries of EROPA were

contacted and a research format worked out by a coordinator designated for the purpose. The case studies were discussed at a preliminary stage in a workshop at Jakarta in September, 1972, and in a final form in March 1973 at Bangkok on the basis of which they were finalised for presentation to the General Assembly of EROPA in Tokyo in October, 1973.

The case studies cover a wide range: they deal with the housing problems of Hong Kong and Singapore, the paddy production programmes of Nepal and Philippines, a major multipurpose project in Indonesia, rural industrial estates in India, land colonisation schemes in Sri Lanka and Malaysia and so on. But what was being sought in all these development programmes was not so much the technical content of the programme as the accompanying administrative process—how was it formulated and how was it implemented? It is with these aspects that the case studies concern themselves so that something of the problem of implementation in developing countries, particularly in the Asian context, could be learnt from them. The case writers themselves were a varied lot: some were academicians who looked at the programmes from the outside; some were practising administrators who had an inside track of the programme; some were research scholars and some were technically trained persons. In all cases, the framework of the study was similar, though inevitably each brought to bear on his particular study something of his own background and experience—which makes the case studies particularly rewarding.

The Tokyo Conference on Implementation (held at the same time as the General Assembly Session in Tokyo in October, 1973) discussed the papers broadly and suggested certain broad guidelines which seemed to emerge from the case studies as a whole. These may briefly be summarised as follows:

- (i) Implementation is but one aspect of a larger process of society and is, therefore, affected decisively by the environment in which a particular programme is implemented.
- (ii) An important facet of the environment is the political milieu at the national, regional and field levels which can be either beneficial or counter-productive.
- (iii) Programme administrators need to develop skills for “playing the political game” so as to optimize political support for the programme. This can be done through frequent consultation and helps to sustain the programme through timely budget releases.

- (iv) Suitable organisational framework is essential for effective implementation: this involves rational allocation of resources, both material and human, recruitment of suitable personnel and allocation of meaningful responsibilities to them.
- (v) Consultation with, and involvement of, the beneficiaries of the programme is essential and needs to be built consciously into the implementation machinery.
- (vi) Accurate data and timely information must be compiled and fed back to appropriate levels for effective monitoring of the programme during implementation. Field reports should be simple and direct and should be acted upon at the headquarters.
- (vii) Programme leadership is an important criterion for the success of a programme; but mere charismatic leadership of a single individual is likely to be transient and ephemeral. What is needed is competence and commitment at all levels of the implementation hierarchy. This implies not merely technical skills relevant to the programme, but also managerial expertise in implementation, human skills in personnel management and motivating people to achieve results and, lastly, political skills to obtain and sustain cooperation and support from leaders of public opinion in the community and country.

The Tokyo Conference also suggested that the broad guidelines enumerated above may be applied to the individual case studies to see how far they are, in fact, applicable. Further, since some were success stories, and others not, it was felt that it might be possible to compare two programmes of a similar type to see why one had failed and the other had succeeded. While it is true that, in practice, there is no absolute success or failure, it is undoubted that the achievement levels tend to vary widely in the developing countries. Based on such a comparison, it may be possible to formulate a strategy that will make more probable the success of a development programme. If the elements of such a strategy can be identified, the collection of case studies compiled with so much effort would be invaluable to administrators and planners in the developing countries.

For this purpose, the case studies were studied in depth and it was decided to classify them into six sets of two studies each in the following manner. The Housing Projects of Hong Kong and Singapore

are, obviously, of one type and implemented under fairly similar conditions. The Paddy Production Programmes of Philippines and Nepal are similar as also the Land Colonisation and Development Schemes of Sri Lanka and Malaysia. The Metropolitan Water Supply Project of Bangkok and the Port Improvement Schemes of Osaka are those undertaken in metropolitan areas. One can also compare the Family Planning Programme of Korea and the Literacy Campaign of Iran both of which are social welfare projects; while the Industrial Estate Programme of India and the Multipurpose Jatiluhur Project in Indonesia could be looked at together.

#### HOUSING PROJECTS IN HONG KONG AND SINGAPORE<sup>1</sup>

Hong Kong and Singapore are both islands with a high density of population which after the war had a sudden rush of immigration from mainland China. But while Hong Kong tried to solve the problem through a housing project programme that has been going on for almost two decades, Singapore has been spectacularly successful in providing new multi-storeyed flats to its citizens, which are today the 'show pieces' of the island republic. One must also mention that while Hong Kong continues to be a Crown Colony administered by the British, Singapore had, for more than 12 years, the benefit of self government under a dynamic Chief Executive.

In Hong Kong, the magnitude of the problem became known with the big fires of 1953 and 1954 which rendered thousands homeless and yet a survey of the problem was not taken up till 1957 and a White Paper on the subject was presented only in 1964. In other words, it took almost a decade for the administration to realise the full gravity of the situation and to come out with a specific plan to meet it. On the other hand, in Singapore almost immediately after the present Government took up office in 1959, a Housing and Development Board was constituted to deal with the problem and initiated a massive programme of house building by 1961.

The Hong Kong programme had suffered, prior to 1963, through a diffuse machinery for implementation which was not fully coordinated. The Resettlement Department looked after squatter control and the Public Works Department for building construction. Even after the White Paper, the machinery for implementation remained unchanged, although there was better coordination between squatter control and

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<sup>1</sup> Case Studies listed as items 2 & 3 on p. 292.



resettlement and an advisory Housing Board was constituted consisting of prominent citizens and senior Government officials to review the housing situation in the colony and to propose adjustments in the programme. It is significant, however, that the recommendations of the Working Group to locate all functions relating to housing in a single government department was not accepted by Government.

But this is precisely what Singapore did in setting up statutorily the Housing Development Board (HDB) with generous funds and wide legal power to deal with public housing, urban renewal and other related problems. "Consequently" says Dr. Stephen Yeh, the case writer, "in the relocation process, the public housing programme provides the alternative accommodation, the resettlement programme undertakes clearance and the urban renewal redevelops the central area".<sup>2</sup> The Board which had, as its head, an influential member of the ruling party was able to view the problems of housing not as an isolated measure, but as an important element of a socio-economic and political whole which would have a direct impact on development.

One may also note the significant differences in the leadership provided to the programme in the two places. In Hong Kong, the leadership came from the Governor—and while Colonial regimes can be able and conscientious, they can never be a substitute for dynamic self-rule. In Singapore on the other hand, there was a highly effective leadership of a young Prime Minister, Lee Kuan Yew, for whom no detail was too small to be considered. The HDB itself had as Chairman a senior Minister, Lim Kim Sen, who had close linkage with the Prime Minister and the Cabinet. Naturally, the HDB was able to initiate several policies which demonstrated Government's keenness to make the public housing programme a success.

The leadership at the administrative levels is also significantly different: while the Hong Kong administration is manned by competent officers, they are more in the colonial tradition while the younger cadres of the Singapore administration brought a new sense of national pride and commitment to their jobs. Their competence was made more effective because of the adequate salary levels provided and the feeling that rewards will be based on merit and not on seniority or political patronage. Under these circumstances "job satisfaction becomes more important than ego satisfaction and pride in contribution of national well-being as important as that of personal well-being".<sup>3</sup> It is this

<sup>2</sup> Dr. Stephen Yeh, *Public Housing in Singapore*, p. 9.

<sup>3</sup> *ibid.*, p. 13.

committed leadership *at the middle levels* that makes all the difference in implementation; since it is inadequately recognised that “innovative measures may be conceived at the top but actual implementation depends on the middle level personnel”.<sup>4</sup>

Another important variation is the technology aspect: in Hong Kong, the design of the flats underwent several changes and four types were built with changing specifications. It was not till Mark IV type was evolved that a multi-storeyed flat construction was taken up which could accommodate a large number of persons. In Singapore also under the colonial rule, a similar attempt was made to transfer British experience to the colony which was obviously unsuitable; the new government and the HDB, however, quickly standardised the floor plan for efficient utilisation of floor space and suitability to local needs. Standardisation helps to reduce administrative costs and technical overheads and HDB flats are rented or sold according to a simple fixed scale, which is easily understood.

The HDB has also undertaken responsibility for the supply of building materials by establishing quarries, brickwork and piling plants to supplement local production in view of the vastly increased demands. This had a double advantage in stabilising the prices of these essential materials and in generating sizable profits for its operations. This had also the effect of rationalising and mechanising the construction industry as a whole and to pioneer the introduction of new techniques such as pre-fabrication and the use of hollow blocks for the inner walls. The HDB also undertook training programmes for technical personnel such as draftsmen, works-clerks, maintenance instructors which provided new technical skills to the community.

It is significant that while in Hong Kong resettlement had met with resistance from the squatters—sometimes resulting in violence—in Singapore, 80 per cent of the relocation was voluntary. Largely, this must be attributed to the fact that the ruling party lent its support to the programme which gave it considerable prestige. Even in Hong Kong, site clearance was comparatively easy when squatters were given alternative accommodation; in Singapore, this was always so. But mention must also be made of the imaginative policies the HDB had adopted: in allocation of new flats, a ‘first come, first-served’ principle was adopted which is easily understood and accepted by the public. Again, the decision to use the provident funds of government employees to finance purchase of flats was imaginative and welcome to many persons. This close liaison with the public also enabled the HDB to set for itself

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<sup>4</sup> Dr. Stephen Yeh, *op. cit.*, p. 32,

realistic target figures and it is expected that, by 1975, almost half the population of Singapore will be living in HDB flats. In Hong Kong, on the other hand, achievement has always fallen short of the target and needed constant readjustment and the number of relocated persons has dropped from 137,000 in 1964-65 to a mere 23,000 in 1970-71.

Significantly, neither the Hong Kong nor the Singapore programme has suffered from lack of funds since in both cases the importance of the programme was adequately realised. This is contrary to the popular impression that finance is the biggest stumbling block in the execution of development programmes and that paucity of funds has handicapped their execution.

Thus a comparison of the Singapore and Hong Kong programmes reveals that while there was competence in both cases, the former gained through a dynamic political leadership and committed administrative cadres at the top and the middle levels. This, in turn, has resulted in providing a coordinated approach in Singapore where a clearly defined organisational framework was set up for the purpose. In Hong Kong, on the other hand, a benevolent colonial regime attempted to do the same but with much less success. Their implementation of substantially similar programmes under almost identical conditions has shown strikingly different results because of the political and administrative milieu under which it has operated.

#### INCREASED RICE PRODUCTION IN THE PHILIPPINES AND NEPAL<sup>5</sup>

The increased rice production programmes in the Philippines and Nepal represent a type of programme that is familiar to most developing countries. Such projects are nation-wide in their scope and involve large numbers of people scattered all over the country. They are dependent for their success on a combination of administrative and political leadership as well as the ability to motivate a large number of farmers who are traditionally conservative to follow instructions from the top. They also involve coordination of a large number of agencies to provide the right inputs—credit, seeds, fertiliser, water and power—at the right time in order to make it a success. Thus, in an administrative sense, they are complex and ultimate success can elude due to any one of a number of factors.

Looking in retrospect, the Philippine story is one of success—by 1968, within two years of the launching of the programme, the country

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<sup>5</sup> Case studies listed as items 4 & 5 on p. 292.

had attained self-sufficiency in rice, which was the immediate objective; it is quite likely that the initial momentum was not maintained later due to a variety of reasons and an assessment over a longer time-span might not be so favourable. But in a limited sense, the programme achieved the target set for it—to do without any import of rice—and in fact was able to export a sizable quantity (3 million tonnes) to neighbouring countries. Nepal, on the other hand, failed to achieve the more limited target it had set before itself—a 7.5 per cent increase in the production of paddy during the Third Plan (1965-70), the actual increase being barely a quarter (1.8%) of the target. There is no doubt, therefore, that while the Philippine case study was one of success, the Nepalese experience was essentially not so. It is, therefore, instructive to compare the two and draw conclusions useful for other countries embarking on similar programmes.

Undoubtedly, there are many differences between the two countries which may have had some effect on the quality of performance: the Philippines has an American style of administration where free enterprise—almost unbridled and to an excess—had flourished while Nepal, land-locked and insulated from external forces—has a constitutional monarchy with representative institutions still at an early stage. Philippines has also a greater administrative and technical expertise at its disposal, although Nepal too employed the benefit of assistance from a number of international agencies. Although in some ways, the two countries are apparently dissimilar, they are not so far removed as to make any comparison between them irrelevant.

In the Philippines (as in all Asian countries) rice has strong political overtones; both Garcia and Macapagal, the former Presidents of the Philippines realised its importance and had tried to tackle the problem of self-sufficiency. Under President Garcia, the Rice and Corn Production Control Council (RCPCC) was established but suffered from the fact that it was headed by a civil servant which severely limited its scope and authority. For this reason, the necessary coordination with other agencies such as the National Rice and Corn Administration was never effective and political support was lacking. Under President Macapagal (who succeeded Garcia in 1962) the priorities in the programme became confused and the emphasis shifted to extension work. A new authority was created but the field level problems associated with resources inputs were never really solved. This is a typical situation in many developing countries, where programme 'sights' get diffused in attempting to do too many things at the same time and taking no effective action to solve the small, but important, problems that arise at the field level during implementation.

It was Marcos who realised the full implication of the rice self-sufficiency programme and even before becoming President had involved the country's leading specialists in an attempt to formulate a coordinated plan to deal with it. By the time he assumed office, the report of the experts (Umali Committee) was available to him to enable important decisions affecting the programme to be taken. In his very first address to the Legislature in January, 1966, President Marcos had highlighted the problem in unmistakable terms: "Self-sufficiency in the production of food, especially rice, must be attained in the shortest possible time".<sup>6</sup>

It was this simple, easily understood and in a sense dramatic target of achieving self-sufficiency in the near future that electrified the entire programme. It invested it with a sense of high purpose, and national priority; it made the persons involved in it have a feeling of justifiable pride. One may compare it with the situation in Nepal where no target was even set during the first two plans except the purely prosaic ones of opening new demonstration farms—which can hardly enthuse the people. In fact, it was not till the Third Plan (1965) that a quantitative target of 15 per cent was provided for the increase in grain production (including rice, wheat, maize, millets, etc.) but, even so, it lacked the magic of the slogan of self-sufficiency.

But slogans, however, useful, are not enough; and President Marcos moved with speed to translate the objective into a live-action programme. By June 1966, barely five months after he took office he was ready with a four year programme that represented "the total integrated efforts of all the agencies that will be involved in the implementation of the programme". A distinguishing feature of the programme was the new perspective it envisaged for implementation on three fronts—production, marketing (and distribution) and organisation. "Rice self-sufficiency was viewed not merely as a problem of improving marketing and distribution; not only a problem of consolidating, integrating and concentrating resources of governmental agencies in a limited area but also the involvement of the private sector in production as well as marketing and distribution".<sup>7</sup>

In Nepal, even the target of 15 per cent set by the country's top planners was not based on a realistic assessment of the country's resources—both human and material. The targets set under the programme differed widely from those formulated at the district and field levels by

<sup>6</sup> Dr. G. Iglesias, *Implementation of the Philippines' Four Year Rice Self Sufficiency Programme*, p. 51.

<sup>7</sup> *ibid*, p. 15.

the Coordination Committees at these levels—but no attempt was made to adjust the targets. In other words, the target represented more an estimate of what *ought* to be done rather than what *can* and, therefore, *must* be done. The coordination between the different agencies at the district level was never effective; in agriculture itself research and extension were bifurcated owing allegiance to different departments. The coordination of the two departments was left to the Central Coordinating Committee, which was too large a body to effectively look after such an activity. Even at the top, the Ministry of Agriculture was bifurcated into that of Food and Agriculture and Land Reforms. The Chairman of the Central Committee was a Minister which made it difficult to meet regularly and also its role became a cross between policy formulation and executive decision-making. No attempt was made to bring all the inputs such as credit under one agency nor was any effort undertaken to train the required manpower for the programme. The junior technical assistants who were the “cutting edge” of the programme were poorly paid and weakly motivated. It is, therefore, no wonder that the programme as a whole suffered in implementation and could never achieve even remotely the target given to it.

In the Philippines on the other hand, the administrative structure was immediately reorganised to bring all activities bearing on the problem under a single agency—the revitalised Rice and Corn Production Control Council (RCPCC). Close linkage with the field personnel was established by the regional directors constituting the Review Performance Board. Three technical staff units were set up for Plans and Programmes, Survey and Evaluation and Action Coordination. The RCPCC was given “the sole power and responsibility of implementing the Rice and Corn Production Programme” under an executive order issued in October 1966. The post of an Executive Director was created to serve as a vital administrative link between the centre and field units. Evaluation surveys were conducted in 1966 and 1967 “to assess the impact of the programme and to gather relevant information useful in future programming”. A massive training programme of technical personnel in the new agricultural practices for effective cultivation of the high-yielding variety strains was undertaken. Private credit agencies as well as international assistance was built into the programme as an additional resource input.

It was, at this stage in 1967, that Rafael M. Salas took charge of the programme and galvanised it into an “action” programme from what was, till then, basically a Government effort. It is quite likely that President Marcos decided to give Salas wide powers to produce dramatic results with an eye on his own re-election due in 1969.

Whatever the reason for the move, the active association of Salas with the programme gave it a new prestige and authority. The effect was almost dramatic: "Salas immediately transformed the RCPCC into a more effective instrument for coordination and control."<sup>8</sup> He persuaded the agency heads, including the Budget Commissioner, to attend the meetings themselves which enabled important decisions to be taken by the Council. "Salas introduced a number of innovative changes such as creation of *ad hoc* specialist sub-committees within the Council and the practice of inviting experts, local Government officials, and interest-group spokesmen to attend Council meetings".<sup>9</sup> He made frequent and unannounced visits to inspect the progress of implementation and to get first-hand the views and opinions of the farmers and local officials. "I believe" he was quoted as saying "that you cannot supervise the rice programme sitting in Manila—you have to visit the fields"—advice which may well be emulated by all programme administrators who often rely on reports from subordinates and later feel let down that they have not been told the full truth.

In any case, the results achieved were remarkable: the Philippines registered, for the first time in 1968, a dramatic increase in production per hectare of land and a complete stoppage of imports that had marked the previous years. There were actually exports to other countries such as Indonesia, Taiwan, Burma and South Korea which indicated the success of the programme. That Salas played a role in this success is undoubted: "the effectiveness of Salas is based on a distillate of many factors including formal and informal power and personal leadership style...the manner in which he wove the various strands of authority into a potent factor for programme control and coordination."<sup>10</sup> It must, however, be conceded that the subsequent performance of the programme has underlined the weakness of the style of charismatic leadership that depends unduly on the personality of a single individual—and the need to institutionalise such leadership at various levels so as to provide continuity.

It must also be admitted that an important factor in the success of the programme was the fact that the International Rice Research Institute at Los Banos, in the Philippines had at the same time come out with new strains of highyielding varieties—popularly known as the 'Miracle Rice' which was capable of three instead of two croppings. This technological 'break-through' undoubtedly helped in the success of the Philippines Programme.

<sup>8</sup> Dr. G. Iglesias, *op. cit.*, p. 43.

<sup>9</sup> *ibid*, p. 43.

<sup>10</sup> *ibid*, p. 43.



It is significant that in both Philippines and Nepal lack of funds was never a serious handicap; in the former, budget allocation and fund releases were done speedily due to the high prestige of the programme while Nepal enjoyed support from bilateral and multilateral agencies for its programme—but whether undue dependence on foreign aid tends to distort the programme and, in fact, acts as a hindrance is a matter for some thought. Internal credit, organised through cooperative societies in Nepal, never functioned effectively because of the lack of involvement of the farmers in this activity.

The success of the Philippines experiment (limited as it is) seen against the comparative failure of the Nepalese programme seems to indicate that “while a good programme plan is in a way a coordinative and control device, the translation of the plan into an effective programme of action is largely a function of leadership”<sup>11</sup>—both at the political and administrative levels. It is only when this happens that development programmes involving large masses of people can obtain the willing cooperation of those whom they are intended to benefit.

#### IMPLEMENTATION BY CIVIC AUTHORITIES IN THAILAND AND JAPAN<sup>12</sup>

The next two case studies to be analysed are basically those implemented by local authorities for meeting civic needs: at Bangkok, the Metropolitan Water Works Authority (MWWA) had undertaken to improve the City Water Supply System while in Osaka City, in Japan, a project was undertaken to improve the port facilities. In the former case, the project was funded by the National Government of Thailand while in the latter, it was the City Government of Osaka that financed it. In both cases, however, the problems dealt with were local and metropolitan in character although in view of the magnitude of the projects they could both be considered as quasi-national. In the case of Bangkok, the problem was one which touched the lives of the common people as nothing—not even Power—can be said to be as important for human beings as adequate supply of water.

That this was so, could be gauged from the letters which appeared in the national newspapers. That the City Water Supply of Bangkok needed radical improvement there could be no doubt and a Government Committee had recommended the merger of the four systems of greater Bangkok including, Thonburi, Nonthaburi and Samutprakarn—into a single metropolitan authority. Significant as this decision was, it

<sup>11</sup> Dr. G. Iglesias, *op. cit.*, p. 41.

<sup>12</sup> Case studies listed as items 6 & 7 on p. 292.



did not provide that authority with the necessary finances, personnel or even independence of decision-making; although technically autonomous, and commercial in character its board was presided over by the General Prapas who was also at that time the Deputy Prime Minister and its General Manager was also the Deputy Director of the Budget Bureau. In other words, it functioned more or less as a department of the Government.

In Osaka, on the other hand, the City Government had a prestige of its own and its mayor had a ranking, technically equal to that of the Prime Minister of Japan himself. Since Osaka is a commercial city, the city fathers were both prudent and restrained and did not interfere with the South Port Development Division that was exclusively set up for implementing the project. The division formulated the South Port Development Plan in 1967 which was later incorporated into the plan of the Kinki region as a whole. In accordance with the general characteristic of the Japanese bureaucratic system which vests considerable administration in the hands of officials, the Development Division had complete authority to execute the development plans.

The calibre of the personnel available for execution of the Port Development Plan was also high since the wages paid to the city government officials was greater than that of the national government. The city administration itself was run on rational lines and was not marred by any scandals. In Bangkok, on the other hand, the personnel available for implementing the plans were of poor quality due basically to the paucity of well qualified personnel and also the fact that the persons recruited were paid poorly and temporary in character. The MWWA itself had been suffering losses year after year and was being sustained by subsidies from the National Government.

Because of the lack of indigenous technical talent, the Bangkok project (unlike the Osaka one) depended heavily on foreign consultants. Although selected after careful and protracted screening, the consulting firm was not fully aware of the limitations of implementation in a developing country. Its interim recommendation for improvement consisted of four elements: improving surface water through water treatment plans, development of ground water, detection and repair of leaks from pipes and improvement of water metering. It is significant that not more than 30 per cent of the water was being metered which, in a sense, was responsible for the financial losses of the Water Authority.

The interim recommendation of the consulting firm envisaged that all the four steps could be taken simultaneously and that this would cost

about 90 million baht (\$4.5 million) and be completed in a period of 2 years—*i.e.*, by April, 1971. It is obvious, however, that this time frame and the cost estimates were unrealistic and were not based on any detailed knowledge of the actual conditions in the country. In practice, even three of the four items took almost 2½ years and cost twice as much. Partly, this was due to the procedural delays in budget allocations; but, mostly, it was due to the fact that what was to be done simultaneously was taken up sequentially. The consultants themselves must take a fair share of the blame for this delay since no recommendation based on modern management techniques such as PERT charts seems to have been made which would have helped the implementing agency. Further, detailed planning was required for each of the projects which were entrusted to different agencies for implementation. Improvement of treatment plants and deep well systems were both construction projects and MWAA's expertise in this area was limited. Due to difficulties that arose in the construction, alternative methods for conveying water for treatment had to be devised. Further, the number of water meters to be replaced turned out to be much larger than what was anticipated which again delayed the implementation. In effect, therefore, the full impact of the four measures, which cumulatively were expected to relieve the acute gravity of the inadequate water supply position in the city, could not be achieved.

One wonders whether there was an undue dependence on the 'wisdom' of foreign consultants and not enough was done to build up technological abilities within the organisation. Surely, it should have been possible in a great city like Bangkok, to secure enough indigenous technical expertise to see through the project, even if broad recommendations are made by a foreign consulting firm. It is often noticed that such consultants are unaware of the cultural and administrative milieu of a developing country and the limitation it imposes in speedy execution of projects. Developing countries must learn to rely more on the ability of its own personnel taking the advice of the foreign experts more as a guideline than as a directive for execution.

In financing, it is significant that the metropolitan authority of Bangkok was dependent on the Central Government for funds; this, in turn, caused delay in allocation and releases—although it must be admitted that the national government lent its full support to the project. In the Osaka Port Plan, the funds for the project were met from the resources of the city administration as well as through flotation of bonds in Germany, approved by the national Government. This indicates a more self-reliant system of administration instead of having to depend on the finances of the Central Government as in the

case of Bangkok project. Unless local authorities are able to plan and execute projects on their own, which can only be done if funds are raised by them, they cannot hope to provide adequately basic civic amenities to the people living in them. In most developing countries, local administrations have not developed the capability to manage and execute projects and have not acquired the ability to raise finances on their own for their improvement plans. This also requires a degree of autonomy for them and power to be delegated to raise resources through taxes. Even in Japan, Prof. Yoshitomi, the case writer has pleaded for greater autonomy in the following words: "As local autonomy is called grassroot democracy, it should accurately grasp the needs of the local citizens and while meeting the citizens' demand for administration it should develop and implement such plans to match the overall national plans, making individual municipal plans components of the national plans".<sup>13</sup>

It is obvious that execution of municipal plans requires greater citizen participation than in the national plans nor is this difficult since such plans are more closely geared to the basic needs of the people. In Osaka, close liaison with citizen groups was maintained, both officially and unofficially, in planning the reclamation of land and paying compensation for loss of fishery rights. Citizen's views were taken into account in preparing the housing plans and hence there was no resistance from the public for relocation. In Bangkok, there was a general feeling of corruption and administration in the MWWA which made its task more difficult and created a 'communication gap' between the authority and the public.

It is significant to note that the Board of the MWWA was packed with people who at that time wielded great power which, however, did not invest the MWWA itself with prestige or authority. Leadership is, ultimately, not just 'big' names; it must permeate through the rank and file and must be vindicated by deeds, not words. The Osaka project was successful because of the quiet efficiency with which it was implemented and the calibre of the personnel at all levels; the Bangkok project was less successful because there was no inherent technical strength and the MWWA did not develop into an organisation which could coordinate the various plans into one coherent action-programme. There was no mobilisation of the resources of the community or utilisation of new techniques of management. It functioned merely as a limb of the government and the entire programme therefore suffered from the normal delays that are experienced in projects undertaken by government departments.

<sup>13</sup> Prof. Yoshitomi, *Osaka South Port Development Plan*, p. 25.

# LAND DEVELOPMENT AND COLONISATION SCHEMES OF SRI LANKA AND MALAYSIA<sup>14</sup>

Land development and colonisation schemes are familiar exercises in many developing countries and involve a coordinated approach of many departments for successful execution. It is, therefore, instructive to compare two such programmes—one undertaken in Sri Lanka and the other in Malaysia. The former is an isolated exercise while the latter is a specific programme of an organisation expressly set up for the purpose. Both the case studies reveal many points of great interest that are useful to those planning similar projects.

Although the Rajangana Colonisation Scheme of Sri Lanka was part of a 10-year programme for the re-settlement in the Dry Zone, the project itself was sanctioned without any detailed planning. In fact, the first report of the Agricultural Department about the suitability of the soil for cultivation, which was based on a superficial examination, did not evoke any serious interest in the concerned Ministry. It was only the personal intervention of a Minister who had just then taken charge of the Department and whose constituency covered the project area that was responsible for the final decision. Even so, it is significant that funds were sanctioned by the Treasury without even a superficial cost-benefit analysis or the examination by a Standing Committee, as is normally done in such cases. While it is true that no systematic project evaluation technique had been evolved at that time, the Treasury, which is responsible for the financial allocation, made no assessment of the resources, both monetary and human, before embarking upon the project.

This is typical of the practice in many countries where projects are started under political pressure and token grants are allotted in the beginning. Once committed to a scheme, the project has to go through—even if it means a much longer span than was originally contemplated. As Mr. Rajendra, the case writer says: "It led permanent officers to assume that development projects were welfare schemes to justify political support and to overlook the important fact that scarce national resources were being used on the project as investment to promote economic growth. When more work than could be reasonably undertaken was entrusted to the department in widely dispersed areas, a ready excuse for inefficiency was also provided."<sup>15</sup>

This failure of administration to exercise the normal prudence was well exemplified by the limited role the Permanent Secretary of the

<sup>14</sup> Case studies listed as items 8 & 9 on p. 292.

<sup>15</sup> M. Rajendra, *The Rajangana Colonisation Scheme*, p. 22.

Department played in the entire programme. It was his responsibility as Head of the Ministry and as Chairman of the Standing Committee, to coordinate the work of several departments. This job was taken over by the Director of Irrigation who played a coordinating role without the authority to do so and assumed sole responsibility for the physical planning of land use, ignoring all recommendations that it be an interdisciplinary exercise. What ought to have been an interdepartmental affair, was reduced to a departmental routine matter thus distorting the entire execution of the project.

This lack of coordination extended to the field level also. "No single officer was personally responsible for implementing the project"<sup>18</sup> and no coordinated implementation programme of the work to be done by pre-determined dates by the Irrigation, Survey and Forest Departments was prepared. There was no project manager for the entire programme and no officer was given the leadership role of the project. Even at the local level, there was a complete lack of coordination. Although attempts were made by the Minister to set up a Joint Development Committee with the representatives of the various concerned departments, it was not effective. A local Coordination Committee with the Irrigation Engineer, District Land Officer, Land Development Officer and Senior Surveyor got bogged down on the procedural aspect of who should preside over the meeting, reflecting the increasing disinclination of the technical cadres to accept the traditional primacy of the 'generalist' administrators.

The case study dwells at length on the part played by the Minister and is highly critical of his role in pushing through a project without adequate study and ignoring normal canons of administrative and financial prudence. But it would seem from the study itself that the Minister really moved into the picture because of a vacuum created by the failure of the top administration itself. On the technical side, officers had been rapidly promoted bringing to the top persons without the necessary calibre or maturity for such posts. On the administrative side, neither the Permanent Secretary nor the Treasury played the role they were expected to do while at the field level, inter-service bickerings made it difficult for any effective action to be taken.

In these circumstances, it is only natural for a Minister to have acted, particularly when he himself was an experienced administrator who had successfully implemented such programmes in the past. In such a situation, if a person wants to do something and the results are not entirely successful, he can hardly be blamed. This decision had to be

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<sup>18</sup> M. Rajendra, *op. cit.*, p. 8.

taken by the Minister without the normal support he was entitled to expect: at one point, when he decided to reduce the area to be allotted to each settler, the administration did not bring to his notice the discussions that had earlier taken place on the subject. In most developing countries, popularly elected ministers are genuinely anxious to "do" things but will do so badly, if the administration does not provide the necessary infrastructure.

The fact of the matter is that Administration itself is unprepared for the type of projects which suddenly have to be undertaken after Independence is attained in many developing countries. As remarked earlier, most of such projects were regarded as welfare schemes that could be undertaken leisurely without specific cost-benefit studies nor were any of the modern techniques of management applied for their implementation. There was therefore an insufficient appreciation that time costs money and "when the attention of the engineers was drawn to these comments and to the significance of speed in construction, particularly in capital-intensive land development projects and to the economic viability of the project, they explained that they treated the provision of irrigation facilities as a welfare service and not as an investment on which returns were expected."<sup>17</sup> There was therefore "no appreciation of the time cost of money and awareness that delayed implementation increased the capital cost of the project and distorted its economic viability".<sup>18</sup>

In many respects, the Malaysian experience represents an advance over that of Sri Lanka. Having identified that land squatting was serious and could not be treated merely as a law and order problem, a Federal Land Development Authority (FELDA) was established in 1956 on a statutory basis "to promote and assist the investigation, formulation and carrying out of projects for the development and settlement of land in the Federation".<sup>19</sup>

Its initial programme taken up in Blut Valley encountered many operational problems. The land clearing process was slow; turn-over of workers was high and many contractors left their jobs unfinished. Weakness in communication, lack of rigid financial control and inadequate technical expertise were glaring defects. FELDA had the limited role of providing "loans" to the settlers, while the physical work of clearing the jungle, the development of the land and management of

<sup>17</sup> M. Rajendra, *op. cit.*, p. 18.

<sup>18</sup> *ibid*, p. 27.

<sup>19</sup> Tang Teng Lai, *Federal Land Development Authority (FELDA), Its Creation, Development and Growth*, p. 4.



the crop were the responsibility of the Land Development Boards in the States—which left little option to FELDA in determining the pace of development.

What is significant, however, is not this familiar pattern of dual responsibility but the fact that, once mistakes were identified, speedy action was taken to rectify them. Based on the recommendation of a Review Committee, the role of FELDA was redefined and it was integrated more closely with the Ministry of Rural Development. It was made directly responsible for the formulation and administration of all schemes financed by the authority. All areas of land over 2000 acres were henceforth to be developed by FELDA directly.

For this purpose, an organisation was set up—two federal Committees, one for Technical Investigation and the other for Planning consisting of the representatives of the concerned ministries were constituted. A board of 13 members was constituted presided over by a senior person—either a civil servant or non-official. The head of the administration is the Director-General who was assisted by staff officers dealing with finance, engineering, budget planning, marketing etc., and a line staff at the regional and field levels. What was really important was the decision to decentralise giving field officers the power to decide; and at headquarters, effective coordination was exercised with the other concerned departments such as Agriculture, Forests, Land and Mines, Public Works as well as the concerned Welfare department through various Committees. It must be stated, however, that such coordination was, in practice, successful because of the tolerance and resilience exhibited by the persons representing the various departments.

Another significant feature of the Malaysian project was the effective monitoring of the programme in its implementation stage. Periodic meetings at the head office as well as at the regional and field levels enabled officers to assess their own progress and also provide a feedback to their supervisors. Periodic visits of the Director-General, the heads of departments and area controllers were also useful for making on-the-spot assessments of the progress and resolving any bottlenecks that may have arisen in execution. Statistical information on the progress was centralised at the Head Office in the "Operation Room" made famous in Malaysian Rural Development Projects. Progress reports from the field to the various departments at the head office are summarised and posted on charts and score boards for scrutiny by the Director-General and other senior officers. The fact that development meetings are held in the same room enabled all members to see, at a glance, the progress achieved and take corrective action, if necessary.

An important bottleneck in the execution of such schemes is personnel of right calibre. Since large sums of money were involved the persons selected had to be men of integrity, and fraud, if it occurred, had to be detected quickly. FELDA operated its own crash programme for training the lower management personnel. Since the "cutting edge" of any such programme is the lower and middle cadre staff, the decision of FELDA to undertake such training itself was a wise one. Foreign expertise was utilised, wherever considered necessary, but such experts also create problems not possessing adequate experience of the specific conditions in which they have to operate.

The leadership role in the successful execution of the scheme vested with the Director-General at the head office and the scheme manager at the field level. But, more significantly, FELDA encouraged a leadership role in everybody and made it possible for them to participate in activities, rather than talk about action. In the words of Mr. Tang Teng Lai, the case writer: "Good leaders generally seek out good followers. With leaders that would work many times as hard, would think twice as fast, are outright honest and ideally human, there is a greater tendency for such traits to be expressed among the supporting staff. Suitable environment and circumstances are said to develop good leaders. The reverse holds true; that is, good leaders develop good environment and circumstances. With FELDA, the strategy is obviously starting with a good leader".<sup>20</sup>

What is significant in the Malaysian case as compared to that of Sri Lanka, is that faced with a fairly similar problem the former set up an organisation and improved it as it gathered experience, while in the latter, there was no attempt to institutionalise the programme and profit by its experience. Ultimately, it is in this respect that a clearly perceptible difference between the successful programmes and those that are relatively less so begins to emerge over a period of time.

#### SOCIAL WELFARE PROGRAMMES IN KOREA AND IRAN<sup>21</sup>

Two case studies refer to social welfare programmes in Korea and Iran—the former dealing with family planning and the latter with the speed of literacy. The administrative problems involved in implementing such programmes fall into a different category: their impact is not always obvious and immediate, although their long range contribution to economic growth, in both the countries, is now clearly apparent. Large numbers of people are involved and it requires considerable persuasion

<sup>20</sup> Tang Teng Lai, *op. cit.*, p. 28.

<sup>21</sup> Case studies listed as items 10 & 11 on p. 292.



to change their attitudes or way of life. Motivating people to do so becomes the biggest single problem in the success or failure of such programmes.

The Family Planning Programme in Korea over the period 1969-70 has been rated as one of the more successful in developing countries; the birth rate declined from about 2.9 per cent in 1960 to about 2.0 per cent in 1970. Although it is not clear whether all of it is due to the programme itself, the purely statistical achievements make it clear that it was a contributing factor in a significant measure. The need for such a programme was obvious and Family Planning was incorporated in the Ten Year Plan of the country. This decision was made at the top by the Supreme Council for National Reconstruction (SCNR) and enjoyed the backing of the highest political leadership. This, in turn, enabled the implementing agency to mobilise resources, obtain authority for enforcement and co-ordinate the efforts required for implementation.

Once a basic decision was taken, it was quickly translated into a series of operational and quantified objectives: for instance, it was specified that at least 45 per cent of the child-bearing couples in the age group 20-44 must practise family planning. It was, in turn, broken down into the number of oral pills, contraceptive devices to be supplied and provision of clinical services to be made at the field levels. An action programme was devised to reach these objectives but the quantification of targets enabled field agencies and supervisory personnel to constantly check actual performance against targets. Of course, one needs to guard against the tendency noticed in developing countries where in a mania to attain targets, obviously incorrect figures are supplied by field agencies.

As regards the organisational structure, it was decided to integrate the family planning programme into the health services of the country. This was a wise decision but besides the purely Governmental agencies—two other agencies were also pressed into service: a voluntary organisation for planned parenthood—PPFK—at a national level and the Korean Institute of Family Planning. The former worked closely with the health services but in well-defined areas such as the training of the staff, administration of foreign aid, dissemination of information and evaluation. This enabled an independent agency to keep track of the performance of the programme and the tendency to give a too rosy picture by field personnel was curbed.

Equally significant is the fact that at the village level, the programme was integrated with the broader community development

movement through the mothers' clubs formed in each of the 19,000 villages. The club consisting of 20-40 influential women in each village took the responsibility for pill distribution and exchange of information. This device enabled active participation of rural folk in the programme which is necessary in a movement of this type and also minimised administrative overheads through decentralising action at the village level. The failure of similar programmes in many other centres has been due to the fact that the village people were never adequately motivated to consider it as their own programme but regarded it as one more fad of the people at the national headquarters. Field personnel for the programme were recruited from the rural areas which enabled considerable rapport with those for whom the programme was intended.

Management of the programme was task-oriented and a schedule was laid down for all activities. In this respect, the programme has an advantage since in Korea, there was already widespread awareness and usage of the new management techniques in the administration of several ministries. By 1961, the Programming and Performance Budgeting system had been applied to all ministries and agencies and Planning and Coordination units were established in each ministry. The schedule of performance required at each level was communicated to the field personnel who therefore knew what was expected of them.

Leadership function was exercised at various levels; by the supreme political body for laying down the broad objective, by the administrative organ, the Ministry of Health, for translating it into operational terms, by the national voluntary agencies for evaluating and providing the training and by the village clubs to make the programme acceptable to the people. This enabled resource commitment and mobilisation of facilities available with other ministries and effective use of mass media such as TV, Newspaper, Cinema to propagate the message of family planning. What is significant is that each level had a distinct function to perform which was clearly spelt out and understood and which contributed to the final success of the programme.

In Iran, the problem of illiteracy was a major one with hardly 20 per cent of the people considered literate in 1966. Although a Compulsory Education Act was passed in 1911, hardly one child in six attended school in the rural areas by 1942. This position was worse in respect of girls with only 5000 schools in 50,000 villages. The basic problem was—as in the case of family planning—psychological; there was no awareness amongst the rural people of the need for and economic value of education. A UNESCO team which studied the problem in 1962 indicated that the expenditure required for complete literacy for each child would be enormous both in time—20 years—and money.

Faced with this problem, the Emperor of Iran announced in October, 1962 the establishment of an Army of Knowledge which would utilise the services of the country's young men and women, who had passed high school to teach functional literacy to the villagers. This was part of the White Revolution the Emperor had initiated in several other sectors and carried with it the tremendous authority and prestige of the head of the State. Thus a revolutionary plan to eradicate illiteracy—the scourge of all the backward areas of the world—was sought to be implemented with backing from the highest quarters; there were other benefits as well in bringing a fresh air of modernity to the villages and in developing empathy between the urban-oriented youth and the rural population.

In terms of organisation, it is significant that the programme was administered by the army and had a military flavour to it. Thus it was an Army of Knowledge and the young persons were given army ranks after a four month training period. This was a wise decision: in a country where the army enjoys traditional respect, it provided an added incentive to youth who may be otherwise reluctant to undertake such work. There was also the fear that disobedience would carry with it exemplary punishment as is the case in the army. However, the actual supervision of the programme was left to the Ministry of Education where a separate division under a Director-General was set up to implement it.

In terms of monetary resources, budgetary allocation was made under the Village Primary Education Fund although the army also contributed since training facilities were provided by them and the villagers themselves gave the lodging facilities as well as the school room. This made the villagers directly involved with the programme since they would be keen to obtain some tangible benefits in return for what they had provided; it also helped in reducing the overhead expenditure on the programme.

The evaluation of the programme was effected through Superintendents of Education but other aspects of it such as agricultural extension or public health or cooperation were supervised by their own departmental staff. At the country, regional and national levels, Co-ordination Committees consisting of representatives of several departments were set up presided over by a top ranking official which conferred considerable prestige on the programme. Cash prizes and awards were given on the basis of a Merit Rating and the highest awards at the national level were personally distributed by the Shahanshah himself which again indicated the importance attached to the programme. The

results of the rating were also used for granting scholarships and promotions and thus had an impact on good performance.

The results achieved by the programme in the period 1962-1972 have been impressive. In spite of the obvious discomforts of such a programme, there have been more volunteers than could be accommodated in it. In the ten year period (1962-1972) more than 90,000 persons worked for two years each—implying 180,000 man-years for a worthwhile activity. Nor was the impact only in the field of education; since the corpsman was regarded as a multipurpose field worker, his influence was seen in an allround development of the villages. For the young people themselves, it was of educative value in bringing them closer to their own rural population, and those who might have been dissatisfied and frustrated, were trained and employed to become agents of change. "In short" as Dr. Iraj Ayman, the case writer aptly says "the programme has served as a refining process for new generations"<sup>22</sup> and the impact of such a programme cannot be computed in purely monetary terms.

There have certainly been some failures in implementation; no programme of this type can be successful completely. What begins as a revolutionary programme has to be translated into mundane administrative terms; in doing so, it inevitably loses some of its revolutionary fervour, and has to reconcile itself to the routine bureaucracy of administration. There was no adequate feed-back system to provide corrections. The quality of personnel declined and the evaluation measures also lost their original impact. It is also significant that young people were allowed to buy off exemption from the service which is certainly not a desirable feature.

But looking at both the Korean and Iranian experiences in the difficult field of social welfare, it is obvious that the considerable success both had attained, were due in a large measure to the prestige associated with them by the support at the highest quarters. They were also part of a wider movement of national regeneration and hence had to be coordinated with a number of other departments and agencies. The organisation of the programme involved the local populations which also contributed to their success. Evaluation of the programme was undertaken—by an independent agency in Korea—and by an objective rating system in Iran. The case studies clearly bring out the need for translating the vague social objectives into a programme of action and targets which are easily understood by the field personnel. Most significantly, such programmes must have the willing support of the people for whose

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<sup>22</sup> Dr. Iraj Ayman, *Army of Knowledge*, p. 17.

benefit they have been formulated—and this, in the ultimate analysis, is the hardest task of all in the process of implementation.

#### INDUSTRIAL INFRASTRUCTURE IN INDIA AND INDONESIA

The last two case studies deal with the provision of infrastructure facilities in India and Indonesia. In India, the Industrial Estate Programme is designed to provide ready-made facilities to potential entrepreneurs who are given worksheds with power, water and other necessary conveniences at subsidised rates. The Indonesian study deals with a major multipurpose project that was taken up to provide both power and irrigation water—a type of scheme that is common in many developing countries.

The Industrial Estate Programme of India is the largest in the world with more than 500 estates providing employment to more than 100,000 persons and involving an investment of \$78 million. The annual production of goods on the estate is now around \$11½ million. The study, however, focusses attention on the estates located in the semi-urban and rural areas and seeks to find an answer as to why such estates have not been as successful as those located in the predominantly urban areas. Thus the objective of using the Industrial Estate as a tool for balanced regional development has not been always fulfilled. By comparing estates which were relatively successful with those which are not, key points are sought to be identified as to the factors that determine the success or failure of such estates established in backward areas.

In terms of planning, although the Industrial Estate programme is included in the country's Five Year Plan, it is not organically linked with the regional or district plans. There is further a multiplicity of objectives for the programme such as development of entrepreneurship, growth of small and medium sized industry, creation of employment opportunities and balanced regional development—and no clear-cut priorities are laid down. Sometimes, there is a conflict amongst the objectives themselves such as between rapid economic growth (which would favour location in a developed area) and acting as a focal point for further growth in a backward region. Even where location has been decided, the siting of the Industrial Estate itself is not often based on any techno-economic surveys but on political compulsions or 'hunches' of administrators. This has led in most cases to the Industrial Estates being situated in obviously unsuitable locations which, in turn, leads to indifferent performance of the units of the Estate.

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<sup>23</sup> Case studies listed as items 12 and 13 on p. 292.

The supervision and construction of the Estates does not conform to any time bound programme. There is no overall responsibility fixed on any individual or agency; coordination between the several departments involved—the Public Works Department for construction of buildings, the Electricity Board for Power, the Department of Roads for roads and the Water Board for Water—is done on an *ad hoc* basis although the Director of Industries is charged with administering the programme. This leads to time-lags at every stage—development of land, construction of buildings, provision of facilities, allotment of sheds, occupation and commencement of production. Modern techniques like PERT charts or CPM diagrams which ensure coordination of the several steps involved in the programme have not been utilised resulting in bottlenecks at every stage.

The management of the Estate, after it is completed, is also a factor in the success of the programme. In the Estates which were studied in detail, the most successful was the one where a Cooperative Society organised the Estate and managed it. In fact, such local involvement seems to be a necessary prerequisite for the successful administration of a development programme. There is often a temptation in developing countries for over-zealous Government agencies to attempt to do everything themselves without involving the beneficiaries of the programme at every stage. Thus the programme tends to operate in isolation without the necessary linkages with the community which alone can ensure its complete success. It is in the sense of stimulating the initiative of people that development projects contribute to nation building apart from their obvious economic impact. Government departments and agencies must be catalysts and not the sole implementors of development schemes—particularly where investments and management skills are not high. In the words of Dr. Ram K. Vepa, the case writer: "It is desirable that there is a strong linkage between the local community, preferably through an Advisory Committee consisting of representatives of the Industries Associations, local bodies, banking institutions, prominent individuals as well as the entrepreneurs and workers operating on the Estate. Unless such active involvement is made possible through a systematic and carefully worked out programme, the Industrial Estate will tend to be an isolated phenomenon making little impact on the growth of the region as a whole."<sup>24</sup>

Another important criterion is the flexibility of administrative procedures which tend to be rigid having been a carry-over from an administration, which largely dealt with regulatory activities such as

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<sup>24</sup> Dr. Ram K. Vepa, *Industrial Estate—A Tool for Development of Backward Areas*, p. 34.



collection of revenue or maintenance of law and order. While such administration provided a sense of uniformity and predictability, it has also become a procrustean bed; ironically, the more efficient the administration in the colonial sense, the less able it has become to adjust itself to the changing requirements of a development administration. In promoting development projects, the skills required in the field personnel are different and these need to be consciously instilled into them through suitable training programmes.

Technology is an important factor in determining the success or failure of individual units on the Estate and, in turn, determines the ability of the Estate as a whole to promote economic growth. All too often, small and medium units, even in the rural areas, tend to depend unduly on scarce raw materials, both imported and indigenous, which puts them at a disadvantage compared to those in the metropolitan areas; what is required is that such units should utilise the agricultural raw materials found in abundance in rural areas. Again, there is a tendency to utilise automatic machinery which would merely reduce the employment potential without increasing the profitability of the venture since both capital as well as maintenance costs of such machinery tend to be high. A more optimum man-machine mix is required in respect of production units situated in the semi-urban and rural areas where capital is scarce but labour is plentiful.

Ultimately, the Industrial Estate can be successful only if a number of other factors exist; it cannot be regarded as a magic wand for economic development and successful implementation of such a programme requires a coordinated approach of many agencies. It requires the necessary organisation and skills that can mould all these factors into a successful programme. Above all, it should be closely linked with the community in many ways and its success should be a "matter of pride for the entire community and not just the concern of one Government Department or a few officials".<sup>25</sup>

The Jatiluhur Project of Indonesia is a typical example of a massive multipurpose project which many developing countries had been implementing after Independence. The project was intended primarily for generation of power and provision of irrigation for agricultural purposes but had a number of subsidiary objectives such as flood control, supply of drinking water and improvement of the sewage system of Jakarta as well as others such as fisheries development and tourist traffic.

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<sup>25</sup> Dr. Ram K. Vepa, *op. cit.*, p. 37.

Such projects always begin as the brain child of a few visionaries; they are dismissed initially as impractical till due to the new economic compulsions they begin to be slowly accepted. It was so in the case of Jatiluhur project; it began as an idea as early as in 1935, when Prof. Blommestein brought it up but it was a local engineer, Ir. Sediatmo, that really pushed it from about 1953, when he was appointed head of the State-owned enterprise for electricity business. It is interesting to see the role of the indigenous technocrats in the case study; again and again, it was they who took up an idea, pursued it and made possible the multipurpose project. It was, again, the power engineers belonging to a relatively modern profession, that were keen to implement the project as against the more conservative irrigation engineers who were more traditional in their thinking.

In fact, being a multipurpose project where power and irrigation are equally important, the conflict between the two sides became a feature of the implementation. The power side went ahead with the construction first; again and again, the conflicting requirements of irrigation and power had to be reconciled. Since they were under two separate ministries, this was not easy. Irrigation itself was not entirely the responsibility of the Central Government and the regional administrations like those of West Java and Jakarta Raya were also involved. For most of the time, the less enthusiastic partner in implementation was the Irrigation and hence the necessary finance was not readily available in the mid-sixties, and the problem of increasing food production became a national priority. Even on the power side, it is to be noted that the emphasis on its end use was changing—at one time, it was for the urban areas of Jakarta and Bandung; later, it was for the Asian Games and, finally, its legitimate role as an infrastructure for industry was recognised.

A device adopted first in the USA, and later copied in many countries, was to set up a single agency to coordinate execution of such projects; the Tennessee Valley Authority (TVA) in the USA which was set up before the Second World War was the first of its type. It is not clear why this was not emulated in the initial stages of the Jatiluhur Project or even during the implementation; if this had been done, there would certainly have been greater coordination between the power and irrigation sides. It was only in 1970, after the project was completed, that a single authority was set up which was located in the State Ministry for Economic, Financial and Industrial Affairs, rather than in Public Works, or Power, or Agriculture; if this had been set up earlier, it is conceivable that much of the delay experienced in implementation might have been avoided.



That such delay meant greater expenditure is obvious; the implementation of the Jatiluhur Project spanned more than a decade and was affected by the changing economic situation and the severe inflation which was experienced in the country. It is, however, interesting to note that at no stage of the formulation or implementation of the project was an economist included in the inner team of policy-making which meant that the economic implications of speedy implementation were never fully recognised. There is a tendency in many developing countries to see such projects in purely administrative or, more recently, in technological terms; the fact that such schemes involving large sums of money, and large masses of people, have economic and sociological over-tones is not always appreciated.

An important factor in the successful execution of the project was the consistent political support it received at the highest levels. In fact, the first decision to go ahead with it was made because the then Minister for Public Works, Mohd. Hassan—an influential member of the Cabinet—became sold on the idea and pressed for its adoption. Later, Prime Minister Ali Sastromidjojo and Djuanda and even the great 'Bung' Karno himself backed the project which, therefore, was allocated the funds, though somewhat tardily on the Irrigation side. Thus the support of the top political decision-makers for such massive schemes is an absolute necessity for successful implementation.

The role of technical personnel in pressing the scheme and executing it has already been mentioned. It may be pointed out that the young technicians involved in actual execution played a key role in adopting novel methods of construction to tide over the difficulty in procuring cement and steel. For instance, in place of concrete, a mixture of red cement, finely ground stone, limestone, chalk and sand was utilised. The idea of an integrated authority for administering the project was also put forward by a technical expert and slowly gained acceptance till it was finally adopted in 1970.

The effect of overall government policies on the progress of implementation of such major projects is also clearly in evidence in the case study. The policy of the Central Government in the period of execution varied from *etatism* in which Government role was dominant to the post-1966 policy when Government acted more as a coordinator and guide rather than intervening directly in every activity. However, it is evident that in such large schemes, which are multi-disciplinary in character, the Central Government must inevitably take a leading role in the formulation and execution of the enterprise. Once the project is completed, it was handed over to an autonomous authority which

could generate its own resources and plan further development to suit the specific requirements of the region.

#### AN OVER VIEW

What do all these case studies add up to? Do they reveal any new insights into the process of implementation of development projects in Asian countries? Such studies in a Western 'Culture' are relatively more abundant; but developing countries, in general, and those in Asia, in particular, have problems of their own—caused by the age-old traditions of the region and, in many cases, colonial legacies. It is, therefore, of special interest to see what lessons can be learnt from the stories of success (or failure) of these programmes which are typical of the development programmes commonly encountered in many Asian countries. Let it be said, however, that in programmes of this type, there are no absolute successes or failures; what seems, apparently, a success may in fact be less so, while that which seems to have failed may well be more significant in future. Even so, one can discern a pattern in the programmes which have fared relatively well and those which have not done equally well.

It is obvious that development programmes must be seen as part of a wider national plan of reconstruction. Sometimes, as in the case of the Indian Five Year Plan, the Korean Ten Year Plan or the White Revolution of Iran, there are well formulated, clearly defined, documents which set forth the overall perspectives of development. The increasing of rice production in Philippines is not part of any specific plan and yet, its need in the national context is obvious; so are the housing projects of Hong Kong and Singapore or the Water Supply Project of Bangkok. In all these cases, one can readily see that the programme has obvious linkages to the overall plans of economic growth.

Having said this, however, one must admit that the linkages at the lower levels such as the regional, district or local levels are not so readily apparent in most cases. The Industrial Estate Programme in India, for instance, is not organically linked to the state or district plans and its impact on the growth of the economy at these levels is not so obvious. This is also true of the social welfare schemes like those of family planning in Korea or the literacy campaign in Iran. Unlike the housing projects or the water supply schemes which have an immediate relevance, in the land colonisation schemes of Sri Lanka or Malaysia or the welfare schemes in Korea and Iran, there is need to persuade and motivate people through mass media to act in a manner desired. This imposes new problems of implementation which need to be clearly recognised, at the outset, by planners and implementors.

Another important aspect is the need to have a clarity of objectives and to translate these objectives into operational terms. The success of the Philippines experiment in rice production was because it was linked to the ideal of self-sufficiency which has a tremendous appeal; while a similar programme in Nepal got lost in more prosaic terms of opening demonstration farms and barely achieved 25 per cent of the target. Targets, if they are to be meaningful, must be set in realistic terms; more often, they represent what *ought* to be done, rather than what *can* and *must* be done. In Korea, the broad objectives of reducing the birth-rate significantly in a decade, become translated into operational terms, which are easily understood by the field personnel and which can be monitored. On the other hand, the Industrial Estate Programme in India is burdened with so many objectives—some of which are mutually conflicting—that neither the planners nor the implementors are ever sure, whether they have succeeded or not.

The housing schemes of Singapore, the Jatiluhur Project in Indonesia, the rice self-sufficiency programme of Philippines or the literacy campaign of Iran had strong political support at the highest levels—Prime Minister Lee Kuan Yew, 'Bung' Karno, President Marcos or the Shahanshah. In Korea, it was provided by the Supreme Council of National Reconstruction (SCNR) but in others, there was no visible sign of backing at the highest political levels. Such a backing automatically assures a willingness of several agencies to work together and also governs the budget allocations and, what is more important, speedy releases. Such support is obtained when the man at the top either realises the intrinsic worth of the programme or has a shrewd sense that his own image is likely to improve by making a success of such a programme.

Without such support, it is often difficult to make a success—although the Osaka case study reveals that this can be done provided the administrative bureaucracy has attained a certain degree of competence and efficiency. In the case of Osaka, although it was the City administration that implemented the project, it had a tradition of prudence and shrewdness; the City Government set up the South Port Development Division, manned it with able, well-trained persons and allowed it to function without interference. In all successful cases, there is need for a unified agency to take an integrated approach to the problem. In Singapore, it was the powerful Housing and Development Board (HDB) whose Chairman was a senior Minister of Lee's Cabinet; in Malaysia, it was the FELDA which after an initial period of hesitation was given full authority to implement and supervise the programme and in Philippines, it was only when Marcos revitalised the Rice and

Corn Production Council, that the programme became a success. In the multipurpose project of Indonesia, the lack of a coordinating authority over Power and Irrigation made it difficult to reconcile the conflicting requirements of both sides leading to considerable delay in implementation. It was only later that such an authority was set up to administer the project. In Bangkok, although a Metropolitan Water Works Authority (MWWA) was set up, and the board was packed with 'big' names, the "authority" did not in fact, have real authority—in power, funds or personnel. This was so in the programmes of Nepal where even at the Ministry level, there was a bifurcation between Food and Land Reforms or in Sri Lanka where the Permanent Secretary who should have coordinated did not do so leaving the job to a lower official who did not, however, have sufficient authority to do it effectively.

The Sri Lanka case is of special interest because of the insight it throws on the complex problem of the delicate relationship between the minister and civil servants. The Minister, in this particular instance, was a competent man and seemed genuinely anxious to push through a project which had an obvious mass appeal; but in the absence of any strong support from the administrative cadres—went about it alone. There was no detailed scrutiny of the scheme and funds were allocated without the normal precautions. There was no coordination at the top or at the field level; at both levels, the Coordination Committees set up for the purpose failed to do the job because of inter-service bickerings and the lack of any focal point of authority. If the Sri Lanka scheme did not succeed as well as it should have, it must be attributed to the failure of the permanent civil service rather than the political executive.

On the other hand, in a similar scheme in Malaysia, a separate authority was set up which centralised policy-making at the national level but decentralised implementation at the field levels. Adequate delegation of authority makes the field personnel show greater initiative in their jobs but there is also need to infuse in them a 'sense of pride' as in Singapore. Salary levels also tend to be unduly low in many countries like Thailand, India or Nepal leading to a loss of morale and poor quality of personnel. However, through training programmes, it is possible to improve the calibre of personnel at the middle and lower levels, the "cutting edge" of the programme. In the Singapore case study, as also in Philippines, Korea, Malaysia and Iran, systematic training programmes were used with great effectiveness to make the projects a success.

There is need too for constant evaluation and monitoring of the programmes. Feed-back of what is happening at the field levels to the headquarters so that adjustments are made in the plan itself or corrective action taken to remove bottlenecks is an important feature of successful implementation. In Malaysia, the Director-General of FELDA and senior officials made frequent visits for making on-the-spot assessment and reports from the field were displayed in an Operations Room to provide information at a glance. In the Philippines, Salas made frequent and unannounced visits to the various project areas to keep the personnel in trim. In Iran, objective merit-ratings were given on the basis of which the corpsmen could hope for promotions, scholarships or other benefits. These features are important to ensure that field personnel do their work effectively and also that there is a built-in incentive for good work.

Finance which commonly is supposed to be the villain for poor implementation was not, in fact, a serious handicap in any of the programmes; in almost every case, adequate funds were allocated for implementation—in some, even without adequate scrutiny as in Sri Lanka. In Nepal, there was adequate bilateral and multi-lateral assistance although, one wonders, whether undue dependence on foreign aid has a tendency to distort the priorities of a programme. But what is more serious is the fact that, quite often, no realistic assessment of the funds required for a programme is made: in the Bangkok case, for instance, the actual expenditure on only 75 per cent of the programme was twice the original estimate for the entire scheme. This is partly due to the delays in implementation that take place at every stage which add to the cost of the project; although this is commonplace, there is insufficient awareness, both amongst planners and implementors, that time has a money cost—which can completely upset any cost-benefit analysis that might have been made at the stage of formulation. Even a major multipurpose project such as the Jatiluhur Project in Indonesia had no economist either in its formulation or implementation. If only administrators in developing countries can be made to realise that delays in decision-making have almost invariably a strong financial implication, they may perhaps act quicker in reaching decisions, even in comparatively simple matters.

Another parameter that is not often realised, but which can make a significant difference to the success or failure of a project, relates to the technological implications of decisions that are often regarded as purely administrative. In Hong Kong, there was little attempt to evolve housing designs suitable to the local conditions; in Singapore, however, the lesson was quickly learnt and standardisation of suitable designs was

made, effecting savings in both time and money. In Philippines, the success of the Los Banos Rice Research Institute to produce new strains of miracle rice undoubtedly contributed to the success of the self-sufficiency programme. In Thailand, on the other hand, there was an undue reliance on the foreign consultants to provide solutions to the problem of the city's water supply; recommendations made by them were not always realistic and had to be revised leading to further delay and, consequently, more expenditure. In Indonesia, young technicians provided the inspiration both for the initial idea as well as the execution of the project. The relatively poor performance of most of the Industrial Estates set up in the rural areas of India was due to excessive dependence on scarce raw materials—both indigenous and imported—which forced the units to work at low capacity; while all around were agricultural raw materials which could have been utilised. There is need for greater reliance on local expertise and to make technology more relevant to the conditions in which the programme is implemented.

All the case studies demonstrate that leadership is essential for the success of a programme. Such leadership can be either political as in Philippines or Iran; but, even more important, is the administrative leadership such as Salas provided to the Philippines Programme. There is no doubt that he galvanised what was, till then, a routine government programme into one of high national purpose. But it is also true that mere charismatic leadership, while useful to provide momentum over a short period, is not adequate and needs to be sustained by institutionalising it and instilling a new confidence into lower echelons of administration. Ultimately, it is the leadership at the middle cadres that will determine, in the long run, the success or failure of a programme; and as in the case of Malaysia or Korea, the personnel at those levels must be given a visible role in the process of implementation. Perhaps, it is true, as the case writer of the Malaysia study says that good leaders make good followers; in any case, it is important to build into the implementing machinery a pattern of institutional leadership which can survive even if the big names are no longer in the programme.

Finally, all development projects must build close linkages, with the community they are intended to serve. In the Indian programme, the successful Estate was the one where a cooperative organisation of entrepreneurs had taken the lead and provided the stimulus for setting up the Estate as also managing it; in most of the others, it remained a Government programme with the beneficiaries largely indifferent to it. In Korea, the Mothers' Clubs at the Village level helped to make rural women aware of the implications of Family Planning and to persuade them to use the contraceptives distributed under the programme. In



Iran, since the villagers provided lodging facilities to the corpsmen and also accommodation for the school, they became involved in the programme of increasing literacy. In Thailand, there was a communication gap between the citizens and the MWWA since there was lack of credibility both in their competence and integrity. Osaka, on the other hand, had a system of citizen consultation which made problem of relocation or compensation for fishery rights a comparatively easy matter. It is, therefore, of great importance to involve the people who are expected to benefit from the programme; and to consciously educate them. Such an effort, which apparently may seem a waste of time to over-enthusiastic administrators who want to get on with the job, repays in the long run through meaningful involvement and support from the citizens and their representative associations. The colonial legacy of regarding good government as a substitute for self government must give way to a more modern attitude of taking the people along in the process of implementation right from the start.

#### CONCLUSION

The several case studies discussed in this paper are valuable in providing administrators of development programmes guidelines in implementation. If, as is now widely recognised, developing countries are weakest, not in plan formulation but in implementation, then these cases will certainly help them to become more aware of the danger signals one needs to avoid or the features one needs to specifically build into the Plan. Admittedly, conditions and circumstances in each country differ widely; and no development project is identical with any other, even if apparently they seem alike. There are intangible, but nonetheless, real shades of difference which may have a significant, and even critical, impact on implementation; these need to be studied and solutions devised to meet the problem. On the other hand, it is also true that in all the developing countries there are broad similarities which create problems which are fairly alike. These case studies, covering a wide range of areas and written by experienced men of public affairs, demonstrate that it is possible to forecast such problems and devise solutions which can assure a high degree of ultimate success to the development projects.

PAPERS PRESENTED TO THE GENERAL ASSEMBLY OF EROPA AT  
TOKYO IN OCTOBER, 1973

1. Hans C. Blaise, *Planning for Implementation.*
  2. Dr. S. S. Hsueh & Andrew Wong (Hong Kong), *Implementation of the Hong Kong Resettlement Programme.*
  3. Dr. Stephen Yeh (Singapore), *Public Housing in Singapore.*
  4. Dr. Gabriel Iglesias (Philippines), *Implementation of the Philippines' Four Year Rice Self-Sufficiency Programme (1966-1970),*
  5. Mr. Kiran Nath Pyakuryal (Nepal), *Paddy Production Programme in the Third Plan (1965-1970).*
  6. Prof. S. Yoshitomi (Japan), *Osaka South Port Development Plan.*
  7. Dr. Chakrit Noranitipadungkarn (Thailand), *Bangkok Metropolitan Immediate Water Improvement Programme.*
  8. Mr. M. Rajendra (Sri Lanka), *The Rajangana Colonisation Scheme.*
  9. Mr. Tang Teng Lai (Malaysia), *Federal Land Development Authority (FELDA)—Its Creation, Development and Growth.*
  10. Dr. In-Joung Whang (Korea), *Implementation of the National Family Planning Programme of Korea (1962-1971).*
  11. Dr. Iraj Ayman (Iran), *Army of Knowledge.*
  12. Dr. Ram K. Vepa (India), *Industrial Estates—A Tool for Development of Backward Areas.*
  13. Mr. Bintoro Tjokroamidjojo (Indonesia), *The Jatiluhur Project (1952-1970).*
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## STATES' SHARE IN INCOME TAX REVENUE

*Himat Patel*

INCOME tax transfer is one of the main items under which States get a part of income tax revenue accruing to the Central Government. Since the process of federalism in India is an evolution from the unitary system to decentralised provincialism under the British Rule, and not a process of integration of several independent and sovereign states, as it is in the case of other classical federations, like U.S.A., Canada and Australia, the States in India have not been delegated the power of income and corporation tax.<sup>1</sup> In other federations, states or provinces enjoyed this power before and after they formed the federation. The Indian provinces except erstwhile princely states did not enjoy this power even before Independence. However, under Section 138 of the Government of India Act 1935, a part of income tax proceeds was to be assigned to the States as a compensation for the loss to them as a result of the centralisation of income tax. Accordingly, the States got 50 per cent of net income tax proceeds on the basis of the recommendations of Sir Otto Neimeyer. In the Indian Constitution, which came into operation in 1950, this provision was incorporated under Article 270 which follows closely Section 138 of the Government of India Act, 1935. Article 270 makes it mandatory to divide taxes on income, other than agricultural income tax, between the Centre and the States; taxes on income, however, do not include corporation tax and any surcharge which may be levied by the Centre. While the Constitution has provided for the devolution of taxes, their fixation and distribution among the States *inter se* is entirely left to the Finance Commission.

Some eminent persons<sup>2</sup> have advocated that it would have been better if at least the States' share in the divisible pool of the income tax and union excise duties were specifically and clearly embodied in the Constitution so as to obviate the controversy and uncertainty. The Fifth Finance Commission seems to have taken note of this view, but in

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<sup>1</sup> Some of the States in U. S. A., though they are empowered to impose income tax, have not imposed income tax. See J. A. Maxwell's reply to Senator Proxmire during the hearing before the Sub-committee on Fiscal Policy of the Joint Economic Committee, U.S.A., 1967. *Revenue Sharing and its Alternatives*, USGPO, 1967, p. 50.

<sup>2</sup> K. Santhanam, "Federal-Finance Relations in India", *Indian Finance*, 12 Nov. 1966, pp. 785.

its opinion, "the case for such a change is by no means clear".<sup>3</sup> Those who advocate specific constitutional provisions, forget the fact that such an arrangement, if made constitutional, would have created rigidity. In modern conditions, there is an increasing tendency towards economic and fiscal integration of the economy which makes it difficult to recognise the exact origin of income and, on the other hand, it makes it easy to collect certain taxes, especially income and corporation tax, more effectively and efficiently by the central authority. The delegation of power of taxing income to the States in India would have created inter-State tax competition, a problem which the U.S.A. faces today. Keeping in view these complications, taxation on income, except agriculture incomes, has been the exclusive monopoly of the Central Government. Even in the case of tax on agriculture income, there is a large school of opinion that advocates the centralization of the income.<sup>4</sup> The idea behind vesting income tax in the central list is to avoid the overlapping of the tax jurisdictions of the Centre and States in the same tax fields and competitive exploitations of the same source by both the authorities.

## II

After the commencement of the Indian Constitution, the absolute share of income tax transferred to the States has increased as a result of the recommendations of the Finance Commission. Under Otto Neimeyer Award, the States used to get 50 per cent of the net income tax proceeds which was revised upward to 55 per cent by the First Finance Commission and 60 per cent by the Second Finance Commission. The Third and the Fourth Finance Commissions have revised it upward further to 66.6 per cent and 75 per cent respectively. The Fifth Finance Commission had not thought it proper to increase it further and had maintained the *status quo*. The Sixth Finance Commission has increased it further to 80 per cent. As a result of the increased share in income tax proceeds, the volume of this transfer has considerably increased. This can be seen from Table 1.

The income tax amount assigned to the States which was Rs. 52.7 crores in 1951-52 has gone up to Rs. 359.1 crores in 1970-71. Thus during the period of 20 years it has become almost seven fold. According to the latest available budget estimates, this is going to be of the order of Rs. 460.9 crores in 1972-73. But, relatively speaking, the share of income tax transfer in the total tax transfer which was as much as 98.2

<sup>3</sup> *Report of the Fifth Finance Commission*, 1969, Government of India, 1969, p. 9.

<sup>4</sup> *ibid.*, p. 8.

TABLE 1

SHARE OF TAXES AND DUTIES TRANSFERRED FROM CENTRE TO THE STATES (1951-52 TO 1972-73)

(Rs. in Crores)

Year	Income tax	Union excise	Estate duty	Total of cols. 2, 3 & 4	Income tax transfer as per cent of Total Transfer
(1)	(2)	(3)	(4)	(5)	(6)
1951-52	52.7	0.7	—	53.4	98.2
1955-56	55.3	16.6	1.9	73.8	75.0
1960-61	90.6	75.1	2.9	168.6	53.7
1965-66	123.2	145.8	6.8	275.8	44.6
1970-71	359.1	390.3	6.3	755.7	47.7
1972-73	460.9	542.4	7.0	1010.3	45.6

(B.E.)

SOURCE : Compiled from Reserve Bank of India Bulletins.

per cent in 1951-52 (Rs. 52.7 crores out of the total transfer of Rs. 53.4 crores), has declined to 47.7 per cent in 1970-71, i.e., Rs. 359.1 crores out of the total transfer of Rs. 755.7 crores, and is likely to be 45.6 per cent in 1972-73 (B.E.). If we take Five Year Plan periods, the share of income tax transfer was as much as 80.5 per cent in the total tax transfer during the First Five Year Plan period. But it declined steadily to 56.2 per cent and to only 16.6 per cent during the Second and Third Five Year Plans respectively. Thus, relatively, the income tax proceeds which the States get from Central tax pool, is losing its importance in the total tax transfer and its place is taken by share from the Union excise duties. This is due to the fact that the revenue from the Union excise duties has relatively become more elastic than the revenue from income tax. While income tax revenue in the Central budget, which was Rs. 132.7 crores in 1950-51 has increased to Rs. 473.2 crores in 1970-71, i.e. almost about 3.6 fold, the receipts from the Union excise duties, which was Rs. 67.5 crores in 1950-51, has increased to Rs. 1758.6 crores, i.e., more than 26 times higher than that in 1970-71. As a result, the receipts of the States from union excise duties have increased considerably. The States got only Rs. 0.7 crores in 1950-51 but it has grown up to as much

as 390.1 crores in 1970-71. Thus, during this period of 20 years, the union excise receipts of the States increased quite considerably, while the income tax receipts during this period have increased much less. In fact, after 1959-60 the share of union excise duties was competing with income tax share, but in 1962-63 it overtook the income tax transfer, and has secured first place in statutory transfer from the Centre. Relatively speaking, in terms of percentage share in the total tax transfer, the union excise has shown sharp increase over a period of time, specially after 1958-59 when the share of union excise in total tax transfer was slightly lower than the income tax. In 1951-52, it formed only 1.8 per cent of the total tax transfer but it increased to 22.9 per cent in 1956-57, 44.6 per cent in 1960-61, 52.8 per cent in 1965-66 and 51.6 per cent in 1970-71. According to the budget estimates it is likely to be 53.6 per cent in 1972-73.

Another factor that has contributed to the inelastic nature of the income tax receipts to the States is the fact that a reclassification of income tax was made in 1961 under which a change in the Act was made and the income tax paid by companies was excluded from the definition of income tax and was classified as corporation tax giving absolute monopoly to the Centre over the use of these funds.<sup>5</sup> But for this change, a sizable portion of the present corporation tax would have been credited in income tax receipts which might have increased the income tax pool considerably resulting in more amount to the States by way of evolution of income tax pool. The States, while explaining the cause of their present overdraft policy with the Reserve Bank of India, had represented to the Fifth Finance Commission that because they are deprived of their share in income tax paid by the companies, their resources are becoming inadequate to discharge their legitimate functions.<sup>6</sup> Though this complaint was dismissed by the Commission, it brought this point to the surface of the financial arrangement which needs due consideration.

Some of the States, like Maharashtra, West Bengal and Tamil Nadu have demanded that entire proceeds of income tax should be given to the States.<sup>7</sup> But this is not possible due to the fact that the Central Government collects the tax and, therefore, a part of it should go to the Centre as an incentive; otherwise the Central Government may become reluctant in its tax efforts. Moreover, if the entire amount is to go to

<sup>5</sup> *Report of Centre-State Relationship Inquiry Committee*, Government of Tamil Nadu, 1971, p. 66.

<sup>6</sup> *Report of the Finance Commission*, 1969, op. cit., p. 245.

<sup>7</sup> Suggestion varied from 80 to 100 per cent distribution. See, *Report of the Finance Commission*, 1969, op. cit., p. 125. Also see, Budget Speech of the Finance Minister U.P., 1967, p. 13 demanding 80 per cent distribution.

the States, the Centre will have to face the resource deficit which may lead it to suspend or reduce the share of the states in union excise which is not a constitutional obligation of the Centre. It is also possible that the Centre may reduce the grants to the States. There seems to be a consensus that the share of the States in income tax has reached the highest point and that it is not possible to increase the share any further. The Fifth Finance Commission<sup>8</sup> did not think it proper to increase the share further and has endorsed the views of the Fourth Finance Commission in this respect. *Shri K. Santhanam*, Chairman of the Third Finance Commission (1961), has said that as regards the income tax distribution the saturation point has been reached and that there is no scope for further increased share to the States. He, therefore, suggested that the share should be fixed constitutionally at 75 per cent.<sup>9</sup>

### III

The most controversial issue in sharing income tax revenue pertains to the principles on which income tax pool is to be distributed among the States *inter se*. For this purpose, two criteria have been put forward, *viz.*, population and the collection. The populous States, like Uttar Pradesh and Bihar,<sup>10</sup> obviously prefer more weightage to the population and the States, like West Bengal, Maharashtra and Tamil Nadu, where almost 60 per cent of the income tax is collected, on the other hand, would prefer more weightage to the collection. But the Finance Commissions have failed to maintain a steady line and have altered the relative weightage to both these factors. The First Finance Commission gave relative weightage to population and collection as 80 per cent and 20 per cent respectively. The Second Finance Commission expressed the view that collection is not a proper index of distribution and, therefore, it should completely be abandoned in favour of population. It seems that the the Second Finance Commission was influenced by the minute of dissent by *Shri Kaushalendra Rao*,<sup>11</sup> a member of the First Finance Commission, who maintained that population is a better index than the factor of collection. The Commission, however, could not go radical and, therefore, it reduced the weightage assigned to the factor of collection from 20 per cent to 10 per cent. The Third Finance Commission

<sup>8</sup> *Report of the Finance Commission*, 1969, op. cit., p. 31.

<sup>9</sup> *K. Santhanam, op. cit.*, p. 785. He has even suggested the share to be fixed for Union Excise and the principles that should govern the distribution of the divisible pool among the states *inter se*.

<sup>10</sup> Bihar is not happy as its suggestion for 100 per cent distribution on the population basis is not accepted by Fifth Finance Commission, *See, Commerce*, dt. 6.9.1969.

<sup>11</sup> *See, Report of the Finance Commission*, 1952 — Note of dissent by *Shri Kaushalendra Rao*, p. 112.

endorsed the recommendations of the First Finance Commission and increased the share assigned to factor of collection again to 20 per cent. The Fourth Finance Commission did not enter into the dispute and made no change. The Fifth Finance Commission, however, again reverted to the position of the Second Finance Commission reducing the share of factor of collection again from 20 per cent to 10 per cent. The Sixth Finance Commission did not think it necessary to make any change. Thus, we can see that a dispute seems to be going on even between the experts in this field.

But at the same time, as a core of origin of income, some weightage, at least 20 per cent, must be assigned to the collection base. This is because relatively advanced States have to spend more on law and order problems and industrial peace.<sup>12</sup> Secondly, the argument that greater weightage to the criterion of population would help in correcting the inter-State disparity needs proper consideration. Constitutionally, the provision of income tax devolution was included in the Constitution to justify the right of the States which they surrendered to the Centre in the interest of national unity and to obviate overlapping of jurisdiction. From the provisions of the Article 268, 269, 270 and 272 of the Constitution, it is clear that the question of need is irrelevant to the problem of sharing the divisible pool. The intention of the framers of the Constitution is to make a clear distinction between statutory transfer and discretionary Central assistance. This provision, therefore, cannot be expected to correct the inter-State disparity. This, however, need not mean that we have no sympathy with the poor States. But, for that purpose the constitutional means should not be misinterpreted in their favour. For the purpose of setting right inter-State disparity and economic backwardness there are arrangements under Article 275, and other scattered provisions. Even Article 282 can be used to grant-equalization payments to the States. According to the Constitution, Article 282 contains a provision for the grants by the Centre or States for 'public purpose'. If Central Government can use this provision for extending plan grants to the States, can it not use the same provision for giving grants for equalization or special development purpose?

Even as a matter of policy there is a case for giving higher weightage to the factor of collection. When the population is assigned higher weightage, the non-industrial populous States are the beneficiaries. These are the very States which are very reluctant in mobilizing additional resources at their home front. For example, Bihar which has benefited the most had lowest *per capita* tax revenue of Rs. 13.91 against

<sup>12</sup> Memorandum submitted by the Government of Gujarat to the Fifth Finance Commission, June 1968, p. 8.



the all-States average of Rs. 23.97 in 1967-68. The next State to benefit is U.P. which had *per capita* tax revenue of Rs. 14.36 in the same year. On the other hand, Maharashtra, which suffered most as a result of more weightage to the population, had the highest *per capita* tax revenue of Rs. 43.49, almost double the all-States' average, followed by Punjab (Rs. 38.81) and Gujarat (Rs. 33.12) in the same year. Thus, giving more weightage to the population, means, in effect, punishing the States which have observed the line of financial prudence. This obviously had led one of the Chief Ministers of prudent States to term it as "reward for indiscipline" while commenting on the report of the Fifth Finance Commission.<sup>13</sup> Equally important is the argument that higher weightage to the population would affect adversely the States which are extensively planning for population control and thus it may be a hindrance to the nation-wide policy of population control. In fact, some of the States have sharply reacted to the favour given to the populous States and in their opinion, the criterion is "against the policy of population control".<sup>14</sup>

Higher weightage to the population, perhaps, had more validity before 1959 when income tax paid by the companies, which is of inter-State nature, was included, in the income tax pool. But as the income tax paid by the companies, has now been excluded from the definition of income tax, the inter-State nature of collection and accrual of income tax has to a greater extent diminished, and, therefore, there is a strong case for increasing the share assigned to the factor of collection. The point made by Shri Kaushalendra Rao has lost much of its force due to the change made as a result of the Finance Bill of 1959. Of course, the point made by him about the inter-dependence has not lost its importance altogether. However, the discrepancy between accrual and origin of income has been removed after 1959.

While giving more weightage to the population criterion than to collection for the distribution of income tax, the main intention of the Finance Commission was to distribute the amount in favour of populous States on the principle of needs. The objective has, to a great extent, been realised. The three States, *viz.*, Maharashtra, Tamil Nadu and West Bengal, are the major contributors to the income tax collection where, on an average Rs. 214.52 crores out of the total of Rs. 358.25 crores, *i.e.*, 60 per cent were collected during three years of 1961-63 to 1964-65. But their share in the income tax transfer in 1965-66 was only 33.6 per

<sup>13</sup> See reactions from Maharashtra, Tamil Nadu and Gujarat, *Commerce*, dated 6.9.1969.

<sup>14</sup> Assam reacted sharply because it expects to lose Rs. 2 crore on this account. See reactions from Assam. *Commerce*, dated 6.9.1969, p. 452.

cent, *i.e.*, Rs. 41.42 crores out of the total transfer of Rs. 123.17 crores. Individually, these three States' contributions during 1962-63 to 1964-65 was: Maharashtra, 30.6 per cent; Tamil Nadu, 11.3 per cent; and West Bengal, 18.1 per cent. But the share they could get in 1965-66 was: Maharashtra, 13.4 per cent; Tamil Nadu, 8.1 per cent; and West Bengal, 12.1 per cent. At the same time, the most populous States of Bihar and U.P. during 1962-63 to 1964-65 respectively got as much as 9.3 per cent and 14.4 per cent as their share from the income tax devolution. Thus, these two most populous States which contributed only 8.3 per cent in collection of income tax got as much as 23.7 per cent, almost three times their contribution. Thus, the State which is the largest gainer is Bihar and the greatest loser is Maharashtra if viewed from the income tax collection principle.

#### IV

Let us now consider the third important problem in income tax distribution. One of the reasons for the persistent overdrafts by some of the States, as pointed out by them is delay in payment of States' share in income tax. At present, the States' share is released to the States in quarterly instalments—10 per cent in July, 20 per cent in October, 25 per cent in January and the remaining in the March of every financial year. It is obvious that if the income tax share along with other devolution of taxes, duties and grants, is regular and more frequent, the States' difficulties regarding overdrafts may be eased. The Government of Gujarat<sup>15</sup> in fact, made a suggestion to the Fifth Finance Commission that instead of issuing such quarterly sanctions, the Ministry of Finance may authorise the payment in one sanction order to be issued at the beginning of the year, making the amounts payable in monthly or quarterly instalments. The Fifth Finance Commission went into the whole problem of overdrafts and found that the Central Government's policy is quite in conformity with the monthly realisation of income tax proceeds. The net income tax collection is realised at an increasing rate during the period of whole year. For example, during the period of 1966-67 and 1967-68 the income tax proceeds were realised at an average 1.78 per cent of the total in the month of April. This realisation has gradually increased to 9.48 per cent in December and 24.9 per cent in March, the last month of the financial year. Quarterly realisation was 14.2 per cent from April to July, 22.9 per cent from August to October, 27.1 per cent between November and January and the remaining 35.8 per cent during February and March.<sup>16</sup> Looking at this trend of

<sup>15</sup> See, Memorandum of Gujarat Government to the Fifth Finance Commission, op. cit., p. 17.

<sup>16</sup> Report of the Finance Commission, 1969, op. cit., p. 277.



realisation, it would be proper if sanctions for monthly instalments during the last two quarters, if not for all the four quarters of the year, are issued. The 25 per cent share released in the third quarter may be distributed over three monthly instalments of 8 per cent. For the last quarter, sanctions for 10 per cent at the beginning of every month and the remaining at the end of the financial year after March may be issued.

## V

The last but equally important problem is the treatment of corporation tax for the purpose of income tax devolution. In the Constitution, the corporation tax has been excluded from the income tax devolution and thereby the States have been deprived of their share from an important source of revenue. In other Federations, like U.S.A., Canada and Australia, the States enjoy the right of corporation tax. But, in India, the corporation tax has been completely centralized and the Union Government enjoys unquestionable supremacy over the use of these funds. The Expert Committee on the Financial Provisions of the Constitution, in this regard, had recommended the following: "... the other reservations should go and that the provinces should not get less than 60 per cent of the net proceeds of all income tax *including the net proceeds of corporation tax*, and taxes on Federal emoluments".<sup>17</sup> The Committee, perhaps, was aware of the fact that, during the period of economic development and industrialisation, corporation tax would become a major source of revenue, and therefore, the States should also get their legitimate share from these revenues. This recommendation of the Expert Committee was not accepted and the Central Government was given exclusive right over corporation tax.<sup>18</sup> However, the fact, that the corporation tax is a highly elastic source of revenue and that it is becoming more and more elastic, is true beyond doubt. During the period of 38 years from 1927 to 1965, the revenue from corporation tax in U.S.A. increased from \$ 92 millions to \$ 1929 millions registering almost 20 times growth during this period. It was 1.3 per cent of total states and local Government revenues in 1927 which had increased to 6.2 per cent of the total revenues in 1964-65. Thus, it had become one of the most important source of revenues after the Second World War.<sup>19</sup> In India, the revenue from corporation tax has shown considerable

<sup>17</sup> *Report of the Expert Committee on Financial Provisions of the Union Constitution (1947)*, Government of India, para. 38, (emphasis mine).

<sup>18</sup> This problem was discussed at length by the constituent Assembly. For rigorous discussion and arguments for inclusion of corporation tax in devolution see Report of Centre-State Relationship Inquiry Committee, op. cit., pp. 62-67.

<sup>19</sup> *Revenue sharing and its Alternative*, USGPO, op. cit., p.10.

increase as a result of industrial development during the last two decades. This can be seen from Table 2.

TABLE 2  
COMPARATIVE GROWTH OF INCOME TAX REVENUE AND  
CORPORATION TAX REVENUE IN CENTRAL BUDGET  
(1950-51 to 1972-73)

<i>Rs. in crores</i>					
<i>Year</i>	<i>Corpora- tion tax</i>	<i>Income tax</i>	<i>Total of Cols. 2 &amp; 3</i>	<i>States' Share trans- ferred</i>	<i>As per cent of col. 4</i>
(1)	(2)	(3)	(4)	(5)	(6)
1950-51	40.5	132.7	173.2	47.5	27.4
1955-56	37.0	131.4	168.4	55.3	32.9
1960-61	111.1	167.4	278.5	90.6	32.5
1965-66	304.8	271.8	576.6	123.2	21.4
1970-71	370.5	473.2	843.7	359.1	42.6
1972-73	493.5	583.0	1076.5	460.9	42.8

SOURCE: Reserve Bank of India Bulletins, March 1965 and March 1972.

It can be seen that the revenue from corporation tax which was Rs. 40.5 crores in 1950-51 has increased to Rs. 370.5 crores in 1970-71. Thus during the period of 20 years, it has grown more than 9 fold. Though it declined from Rs. 40.5 crores in 1950-51 to Rs. 37.0 crores in 1955-56, during the First Plan period, it increased almost three times during the Second Plan. During the Third Plan Period, it has almost trebled and reached Rs. 304.8 crores in 1965-66. Thus, it is apparent that its growth has been more than in proportion to the growth of ordinary income tax which has increased from Rs. 132.7 crores in 1950-51 to Rs. 473.2 crores (including union surcharge) in 1970-71, i.e., only 3.6 times. As a result of the exclusion of corporation tax from the definition of income tax, the share of the States in income tax as a whole (including corporation tax) has been very much less than contemplated by the Finance Commission. The first Finance Commission sought to give 55 per cent of the net income tax receipts to the States but the States got Rs. 57.9 crores in 1956-57 which makes 38.4 per cent of the

total income tax receipts of Rs. 151.2 crores and only 28.6 per cent of the total income tax receipt of Rs. 202.4 crores, including corporation tax in 1956-57. The Second Finance Commission sought to transfer 60 per cent share of net income tax, whereas the States got Rs. 84.4 crores out of the gross income tax receipts of Rs. 161.0 crores, *i.e.*, 59 per cent. But if we include corporation tax receipts, it is only 29.3 per cent of the total receipt of Rs. 321.8 crores. On the basis of the recommendations of the Third and the Fourth Finance Commissions, the States' share in total income tax, including corporation tax, is 21.4 per cent and 27.1 per cent respectively. Thus, it has shown a declining trend. Though it has slightly increased in 1968-69 to 27.1 per cent, it is only one quarter of the total proceeds. Some of the States complained to the Finance Commissions of the shrinkage of their divisible pool due to reclassification of income tax paid by the companies according to the 1959 Finance Bill and exclusion of corporation tax. But their request was turned down by the Commission stating: "We consider that no further increase in the States' share on this ground is necessary".<sup>20</sup> But our preceding analysis shows that it is high time that the corporation tax be included within the definition of income tax. Government of Gujarat in its memorandum submitted to the Fifth Finance Commission has rightly expressed that, "this is an inequitable provision.... the corporation tax therefore should be sharable and, if necessary, Constitution amended therefor".<sup>21</sup>

There have recently been new schemes like annuity deposits, concessions to the LIC policy holder, small savings, compulsory deposits, public Provident Fund, etc., under which the income tax limit is extended upward and as such income tax revenue has gravely been affected. It is not our intention here to say that these schemes are undesirable but we are concerned with the effect that these schemes have on the State finances.

When the last Finance Commission was appointed almost all the State Governments again pleaded that the revenue from corporation tax should be included in divisible pool to be shared with the States. The Commission seems to have taken note of it. However, explicit provisions of the Constitution precluded the Commission from recommending the inclusion of corporation tax in the divisible pool. But having a near unanimity in the views expressed by the States, the Commission has suggested that the question should be brought up for examination before the National Development Council. The Commission has also

<sup>20</sup> *Report of the Finance Commission, 1969*, op. cit., p. 25. Also see, p. 245-246 regarding complaint from states regarding shrinkage of the pool and persistent overdrafts.

<sup>21</sup> Memorandum submitted by Government of Gujarat, *op.cit.*, p. 7 and Ch. II.

expressed the view that inclusion of corporation tax in the list of sharable taxes would not upset the relative balance between Central and State resources.<sup>22</sup> This has, thus, remained an open question to be taken up by the States in other national forums.

Similarly, the problem of union surcharge on income tax needs due consideration. Constitutionally, the revenue from this source is the sole right of the Union Government. However, while demanding increased share in income tax, the States felt that the continuance almost on permanent basis of union surcharge and its recent enhancements in effect have enlarged the Central share in the net proceeds of the income tax at the expense of States. The revenue accruing to the Central Government under this head has considerably increased from Rs. 6.1 crores in 1952-53 to Rs. 27.3 crores in 1971-72. This has made the case for inclusion of corporation tax in the sharable pool much stronger. Even inclusion of surcharge can be thought of by amending the provision of the Constitution suitably. While the Sixth Finance Commission has suggested that this matter should be taken up, it is advisable for the Central Government and the National Development Council to find out an integrated approach by combining the issue of income tax, corporation tax and the union surcharge.

### CONCLUSION

It is thus abundantly clear that because of measures like reclassification of income tax paid by the companies and liberal use of Article 271 of the Constitution pertaining to imposition of surcharge on income tax, the distinction between statutory sharable taxes and taxes sharable at the discretion of Parliament is getting blurred. This tendency ultimately defeats the very purpose of Article 270 as contemplated by the framers of the Constitution and widens the scope of Article 282.<sup>23</sup>

From the foregoing analysis, we can conclude that in the changed situation the problem of corporation tax needs due consideration. Prof. Bhabutosh Datta was right when he said, "If changes in the distribution of functions between the Union and the States are ruled out, the situation can be remedied by widening the base of tax sharing ... making the whole scheme of distribution more flexible than it is now".<sup>24</sup>

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<sup>22</sup> *Report of the Finance Commission, 1973*, Government of India, pp. 1-12.

<sup>23</sup> See, Memorandum submitted to the Sixth Finance Commission by the Government of West Bengal, January 1973, p. 55.

<sup>24</sup> *Report of the Finance Commission, 1965*, see Minute Note by Prof. Bhabutosh Datta, at p. 95.

## NEED AND RELEVANCE OF SOCIAL SCIENCE RESEARCH IN PUBLIC ADMINISTRATION\*

*S. C. Jain*

THE recognition of the potentiality of Social Science Research in an expanding range of policy choices, examining feasibility of alternative projects, assisting in the planning of goals and improving process of administration is gaining ground. The increasing attention being paid to the strengthening of bureaus of Economic and Social Research, establishment of Evaluation Directorates, increasing allocation for policy research contracts to research institutes and university departments, appointments of social scientists as programme advisers and members of study panels are indicative of the developments in this direction. A variety of emerging circumstances account for this development of administrative interest in Social Science Research.

The first is the necessity to prove to political decision-makers and intelligentsia of the country—in the face of possible controversy about the true achievements of the programme—that consequences have occurred in the expected direction on the basis of rigorous scientific methods of appraisal. Failure to do so might endanger the very survival of the programme or might lead to the scuttling of funds and arresting of further expansion.

The second is the realisation that periodical revision is necessary in the developmental planning if it is to be adopted to the changing conditions in which the work must be carried out. If the guidelines for such changes emerge from a careful study of the facts of the situation instead of depending on partial impressions, random thoughts, and contradictory hunches, the planning process gains in realism which increase its chances of success.

The third is the importance of feed-back in strengthening the capacity of the programme administrators to know what is really happening and about organisational response to the requirements of the situation. Some form of administrative intelligence is built-in in almost any project of consequence. The refinement which a social scientist can

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\*Awarded Second Prize in the IIPA Essay Competition for 1973.

introduce in the system can immeasurably enhance its value for feedback purposes.

Finally, there is an increasing realisation that a rigorous evaluation of the impact, causative factors, time-lags, costs, etc., is necessary before the recommendations developed by the pilot projects could be accepted in order to shape viable policies and commit substantial financial resources. In fact, demonstration projects may succeed or fail in winning wider acceptance depending on whether the evaluation of their achievements is found convincing by the administration having stakes in the adoption of the recommended model.

A response to these administrative needs would not have been possible had social theory not made an advance and social science methodology perfected its language and tools of problem definition, analysis and interpretation which have tended to reinforce its image of potentiality. The development of the theory of social system has created confidence amongst social scientists in their competence to contribute to the solution of the problems which may have several hidden dimensions unexposed to the view of a busy policy-maker and administrator. The ability to ask questions about the functions of the system, its environment, its components, the various inter-relationships typified in input-output patterns enables the social scientist to detect creeping maladjustments, developing time-lags, unanticipated consequences and new threats or rewards in the environment of the system all of which might have a great deal to do with the success or failure of administrative action in implementing the policies and planning new projects and organisational structures.

The development of evaluation methodology and social survey procedures and use of computers have put a formidable language and very powerful tools in the hands of social scientists who can now cover a vast area of social space and analyse an enormous mass of social facts with a precision and rapidity, undreamt of in the fifties. The increasing complexity of social functions and specialisation in a modern national community have predisposed administrators to call upon social scientists for help.

#### ADMINISTRATIVE USES OF SOCIAL SCIENCE RESEARCH

The volume and type of demand for Social Science Research are conditioned by the nature of decisional stakes and phases of administrative activity. Committees and commissions charged with the responsibility of making recommendations on economic and social development

policies, administrative structures, pilot projects or economy measures engage in extensive research activity to determine the current status of the programmes in relation to their respective fields of enquiry. Action research institutes, university centres, social science academies have been assigned contracts for making studies on selected aspects such as acceptance of practices, decision-making, awareness of the people regarding availability of certain services, reasons for inadequate use, etc. Programme evaluation organizations and research departments have been charged with the concurrent responsibility of studying the on-going programmes. The findings are often studied by programme administrators as well as critics.

Often a senior administrator is himself attached to such committees and commissions as member-secretary or in some other capacity. He has opportunity to define issues to be investigated and must assimilate the findings when he sits down to writing a report. The examination of report also requires perusal of voluminous research memoranda before judgements about the validity of conclusions can be formed.

Another source of initiative is the government department itself which may want to have the results of a programme appraised as a basis for judging whether it is succeeding or not in terms of the goals of the project. It also leans on the research arm for undertaking fact-finding missions for programme planning and programme development and solving some action problems. To keep the policy makers and public informed it needs factual material for being incorporated in the reports. It is the direct consumer of feed-back papers prepared by staff.

Where evaluation is to be built in as a part of pilot projects the scope of enquiry is often broadened to include factors which have contributed to the success or failure of a programme, the conditions in which it was carried out, the cost-benefit relationships so that some better decisions could be formulated in the light of the experience. Decisions about the size of the service area, structure of the service, contents of the programme, methods of approaching citizens, contents of training, etc., are basic to the development of the service on a national scale. The stakes in terms of funds to be committed, manpower to be reorganised and institutional structure to be modified are enormous. Careful research can play a very important role in such decision-making. To cite an example; the credit of pointing to uneven distribution of fruits of Green Revolution and the social dangers inherent in such a situation goes to carefully conducted programmes of research. The design of Small Farmers Development Agency and Marginal Farmers and Agricultural Labour Projects can be traced to a recognisable extent to the feed-back effects of social scientists' labours.



For planning in greater depth, research institutions have been asked to study several demographic trends and direction of socio-cultural changes and attempt projections. Programme targets and intervention decisions have been readjusted as a result of these studies. A good illustration is the family planning programme. The initial goal of bringing down birth rate from 40 per thousand to 25 per thousand before the close of the seventies was evolved as a result of demographic exercises. However, the staggering of the target date for accomplishing the goal was also the result of studies in programme implementation.

Research has provided excellent material for the training of administrators. Harvard University and management institutes in this country have made extensive use of case material in sensitising administrators to the complexity of setting and structure of administrative action. There is, however, more scope for the development of case material and its use in administrative training.

Still more indirect, but nevertheless a fruitful contribution of social science research lies in enrichment of curricular offerings at university level where students prepare themselves for their possible roles as future administrators of the country. But for a sound base of knowledge of social sciences updated and vitalised by painstaking researches in social problems, the academics of public administration might find their task of operating at higher level of learning extremely difficult.

#### UNDER-UTILIZATION OF SOCIAL RESEARCH : CAUSES

Despite increasing recognition of the role of social science research in formulating and implementing policies, major policy changes have occurred more through political pressures and administrative fiat than through systematic evaluation of programmes. To quote:

"The tendency, therefore, persisted for researchers to collect data, and planners to develop plans quite independently. When efforts were made to collaborate towards a common end, the result was often an Alphonse-Gaston situation. The practitioners asked the researcher to get data that will explicate needs and suggest directions. And the researcher replied, 'Of all the possible facts that can be collected which ones do you want?'"<sup>1</sup>

Before the question of improving relevance of social research findings for administrative action can be focussed, it is important to know the predisposing conditions contributing to this situation.

<sup>1</sup> Neighbourhood Service Centres : *USDHEW Office of Juvenile Delinquency and Youth Development*, p. 36.



*Inadequate Allocation of Money and Time*

Action programmes being motivated by a desire to do something on a large scale in a crisis-bound atmosphere have tended to expand much faster than the plans of research could advance or allocations for social surveys could be augmented. Funds being required for pushing action, decision-makers have been faced with the problem of diverting resources from some item or other. Research allocations have been often casualties of this exercise. A good example is the first series of pilot projects in urban community development. Evaluation allocation with the ministry was not even 0.25 per cent of the contemplated action input. The increasing coverage made the capturing of a representative sample impossible with the fixed allocation. Another example is the expansion of employment programmes for the educated unemployed. Even before it was possible to evaluate systematically the experiences of the special schemes for the educated unemployed, a massive programme of half a million job generation was launched to curb the mounting credo of youth unrest provoked to demonstrative acts of violence and the rising graph of educated unemployed on Employment Exchange.

*Structural Factors: Relationship Tensions and Gaps*

Where a programme evaluation organisation or a policy research wing has been set up as an independent organisation, it has generated tension between the research agency and the programme administrators. The latter have charged social scientists with being unsympathetic, superficial, and irrelevant critics while the social scientists have complained of lack of responsiveness on the part of the programme administrators. Where the research agency has been part of the general administration, it has found itself under strong pressures to present its findings so that it does not put the administrative organ in an awkward position of having to defend itself against the findings of its own department. More often, such findings might not be released for publication because of the likelihood of adverse reactions amongst leaders of public opinion. This restricts generation of pressure on insiders for utilisation of research. There are, of course, inter-personal tensions resulting from the administrative environment. The evaluator is no longer an important outsider but an insider presenting opinions, and expressing agreements, and disagreements. These inter-personal maladjustments combined with disadvantageous location to command the required policy attention from key decision-makers result in reduced capacity of the social scientist to influence direction and content of social policy.

Sometimes, the evaluation organisations have come into being much after the programmes were set on foot. Benchmark surveys have

been delayed. If the design is based on 'before-after' measurements, it is vitiated. The benchmark survey data become available too late to be used for taking basic decisions about programme-pattern and its administration.

Not infrequently, the change of the key person in the sponsoring administration has decided the fate of a piece of research. The continuity stimulus, and the enthusiasm required to overcome resistance and uncertainties having evaporated with the transfer of the key person, many a research report has gathered dust in the shelves. The most important deterring factor is the upsetting effect consequent on implementation of research findings. An ongoing organisation, for example, cannot be dismantled without strong pressures from employee unions, resistances from established informal relationships, and operation of institutional checks and balances. Unless top political energy is involved in working out such changes, few administrators would take the risk of inviting a storm of protest and disruption of relationships.

### *Technical Problems of Measurement*

Evaluation services have not yet developed ways of measuring socio-cultural changes satisfactorily. The failure to assess non-physical aspects of development has reduced their effectiveness in educating the programme administrators about the changing character of socio-cultural reality. The failure is partly due to the initial inability of the administrators to spell out the concrete behavioural changes which are expected to result from the programme impact. Even the programme input is inadequately formulated. In fact putting such questions has often revealed the perceptual incongruities about programme input and image of behavioural changes amongst programme administrators themselves teaming up to perform the complex task of a social policy. Take for example, the employment policy where perceptions ranged between the soft 'welfare concept' to the hard-headed one of 'surplus value' through low wage educated labour. Nor have the criteria of success been spelt out in advance or changes in criteria recorded from time to time. Under these circumstances, the evaluator's orientation is very likely to be different. His findings are liable to be rejected by programme administrators as being based on unsatisfactory formulation of premises or inadequate evidence.

### *Inadequate Participation*

Another reason for the failure is lack of participation of research staff in developing tools of administrative intelligence. Too often the

tools are utilised for meeting the needs of accountability to the fund-providing agency. Programme evaluation needs are not incorporated. Researchers have to base their reports on the collection of fresh data through observations and interviews for a very brief period near the terminal point of the pilot project. The possibilities of basing conclusions on adequate observations evenly spread over the period of programme operation, making interim reports from time to time, and modifying tools for measurements based on feed-back reports are very slender. Programme administrators have to base their judgements on informal evaluation and administrative intelligence as it flows to them through their own internal arrangements from time to time. Before the evaluation staff could report its findings, major decisions might have already been taken. Funds and staff might have been committed. Under such circumstances, the implementation of recommendations might result in severe dislocations.

#### *Lack of Adequate Preparation in the Subject Matter of the Policy*

This has also contributed to the ineffectiveness of the social scientists. Too often the evaluation scientists are oriented to abstract processes rather than to the subject-matter issues which they are expected to clarify. Where the social scientist has been found ill-equipped to anticipate side effects or develop a process model, his credibility has been adversely affected. Quite often the social scientist feels handicapped for want of a logical scheme of indicators. Ways to measure changes are often crude and rigid.

#### *Language: Communication Styles*

The possible clientele for the social scientist includes not only programme administrators but membership of his professional field also. He depends, for colleague criticism and appraisal of standards, on his fellow scientists. While an administrator might care more about the substance of findings insofar as it illumines a policy issue or clarifies a practical problem, the fellow scientists are concerned with theoretical and methodological aspects of work whether it contributes to the expansion and enrichment of the existing body of systematic knowledge in the subject and whether the method of enquiry can be defended on recognised canons of validity, reliability, etc. The details and nuances of an encumbered and involved presentation tend to make it unbearably tedious to an administrator who would prefer focussed featuring in a straightforward and, if it is possible, in an illustrated manner. To members of research fraternity, however, brevity is not the sole virtue. Elaborating limitations to the propositions is a recognised code of the

ethics of the social scientist who must honour requirements of accuracy and precision in stating his propositions. The tight rope walking between two styles has killed many a promising proposal. An instance is known to the author when a proposal rated as excellent on technical grounds was shelved because the sponsoring research agency, which sought through this exercise to perfect a methodology of regional planning, could not defend it on grounds of its immediate relevance to the current concerns of district planning or minimum needs programme.

### *Lack of Feed-back Data on Administrative Utilisation of Social Science Research*

While the accounts affirming or rejecting the effectiveness of social research in influencing the policy decisions are based on impressions gained in a particular setting or opinions gathered through a limited personal sample, a systematic attempt has yet to be made to assess to what extent, in what manner, and in which areas of policy, social science research has been used by the administrator and where it has been ignored or has created hostile perceptions. The conditions attaching to the degree and kind of utilisation, perceptions of relevance and hostility and similar other matters might throw much light on the factors responsible for the same and could provide base for restructuring inter-relationship patterns, communication forms, formulation of questions, design of enquiry, etc.

### *Motivation on the Part of the Social Scientist*

Hayes<sup>2</sup> has drawn attention to this factor. Motivation on the part of the social scientist depends upon his practical interests and work surroundings. Environment of books, and constant occupation with abstractions develop a measure of introversion and detachment from practical affairs. Many scientists have disdain for research, aiming at meeting mundane and utilitarian ends. According to them, it is a waste of scientific talent.

### *Orientation of Research Plan*

Sodofsky<sup>3</sup> has pointed to orientation of a research plan as a factor in research utilisation. If a research project is primarily designed as a contribution in methodology or in social theory, it may have very little of immediate and perceptible value for the administrator. On the other hand, a research plan with feed-back orientation is more likely to be

<sup>2</sup> Hayes, *Measuring Results of Development Project*, UNESCO, 1959.

<sup>3</sup> Sodofsky, *Learning in Action*, U.S. Department of Health, Education and Welfare, p. 26-36.

acceptable to him. The administrator has a right to indicate his needs for information and control publication of research findings, if he fears adverse reactions. This assures him that the study would be responsive to his needs and sets at rest his fears about possible damage to the public image if he accepted the major conclusions. Other features of a research plan which have been observed to have affected its acceptability are (a) level of variables taken up—whether these relate to causative factors or to symptoms only, (b) degree of impersonality in formulation of issues—whether the design emphasises principles and procedures or it gives appearance of a potential indictment of persons, and (c) the mix of theoretical, methodological and applied objectives.

#### ASSURING UTILISATION OF SOCIAL SCIENCE RESEARCH : ROLE OF SOCIAL SCIENTIST

Many times the costs of change, dislocations in organisation and uncertainty about a new course of action deter even bold administrators from accepting and implementing the evaluator's recommendations for change. Evaluators, therefore, find it helpful to involve programme operators in defining criteria of success, indicators of change and expected side products. Proving from facts that unintended side effects have been produced or that results are not commensurate with expectations might cause the programme administrator to think. Interim feedback reports might also prepare him to anticipate changes and phase them over. It may be pointed out here that impact measurement is infructuous unless an alternate course of action is spelt out and its feasibility is assured. In the absence of viable ideas of alternate action, a programme change might prove a leap in the dark. Even a factor analysis study built in with impact measurement study could prove extremely useful in clarifying the situation further.

Since reorganisations involve formidable administrative and technical problems, the programme administrator's impulse would be to avoid risky ventures if he could do so and at the same time reduce the anxiety born of perception of inadequacies in the services by the political masters. If the sanctioning agency requires spelling out utilisation plans as part of the original research proposal, it might facilitate application of research results.

Credibility of the research agency or the social scientist associated with the programme as the principal investigator is an important factor in the acceptability of research results. Besides the technical aspects of research operations which determine how much confidence should be placed on findings, certain non-logical factors are also influential in

determining reactions to research results. These according to Sodofsky are : (a) Discrepancies between the findings of formal research enquiry on the one hand and informal flow of information from field and public relations on the other; (b) Threat to basic occupational and personal convictions and fear of loss of status, resulting from the adoption of the evaluator's recommendations; (c) Scarcity of alternative approaches to the problem; (d) Fear of failure psychology affecting work morale; and (e) Practitioner's judgement of the evaluator's competence.

Needless to say that organisational factors like the location of research unit, climate of interpersonal relations, accessibility to information, etc., also affect credibility of the studies.

The research results are likely to provoke defensive attitudes on the part of the programme operators when it is shown that the functions of the organisation are not being carried out according to the best of the expectations. On the other hand, there is an equal danger of complacency if they look upon favourable features too hastily. A number of suggestions might be offered to overcome defensive attitudes.

#### *Participation in Planning and Interpretation*

The more the people who are to change as a result of research applications are involved in research planning and analysis, the less likely will be the resistance on their part. Participation might include defining the problem together with clarification of the important issues involved, reviewing the existing research having a bearing on the problem and carrying out certain steps of data-collection. It is expected that working together would cause changes in perceptions and attitudes regarding the situation and create better interpersonal climate. Where the project involves data collection from local units, while the research agency is working on behalf of the central units, the former ones should be taken into confidence.

Of course, this kind of collaboration is time-consuming. But it assures that the problem being considered is relevant. It stimulates the action agent to take interest in defining the problem as he sees it, suggesting limitations to some of the recommended procedures, collecting data in special circumstances and reviewing the interpretation for himself. Without such a knowledge it is just possible that the problem may be construed as being irrelevant. It might be found so much upsetting and threatening that administrators in their capacity as action agents might take a defensive posture by stiffening their attitudes and non-cooperative behaviour.

*Interim Reports*

An interim report is very useful to prepare the ground for change. The enthusiasm of the sponsoring agency is likely to wane away if the needed information is not made available at the time the action is on the anvil. On the other hand, processing and writing of the report does take time because it requires sifting of the evidence in several ways and testing relationships between variables. An interim report giving the broad configuration of findings might not only keep up the enthusiasm but also set into motion changes which would be resisted if they were to be presented in an abrupt fashion. There is a possibility of the recommendations being tested and side effects being studied before a wholesale drive for reorganisation is undertaken. Important changes do take time. Too much pressure to put through the changes and skip over time-taking steps causes anxiety, arouses emotional resistance and results in a number of maladjustments. The interim report also helps the researcher to have a feed-back for himself whether he has found a proper level of communication with the action agency which is to use the research findings.

*Use of Hierarchical Sources of Influence*

Since the people at the top exercise considerable influence and legitimise the presence of the researcher in the organisation, it is necessary to secure their full interest. Without appropriate legitimisation, the research worker might find it difficult to have access to vital information which the subordinates might possess. On the other hand, such legitimisation might be construed as threatening the security of the subordinate workers, if adverse reaction is apprehended as a result of researcher's investigations. The kind of image which the researcher evokes is important. He may be pictured as a 'spy' of the management by the workers or as a workers' 'spokesman' by the administrators. Both these situations are not conducive to the application of research findings. In fact, where such intergroup conflict and estrangement exists, it is doubtful whether action research would succeed unless proper steps are taken to ensure that both sides share common concerns about the given situation.

*Presenting Data in Such a Way that it Presses for Action*

Research findings, coming as they do from impartial sources, can cause reconsideration of the situation. However, this effect can be heightened if the technique of presentation is carefully considered in relation to the ability of the non-scientist audiences and the contexts through which such audiences construe meaning out of the presented



material. The use of graphs, pictorial representation, contrasts, etc., do enhance the appeal of the material for the non-scientist audience for whom the jungle of statistical tables and the high-sounding terminology might be bewildering.

### *Recognising Resistances and Working Through them at Implementation Stage*

Once the decision to implement research findings has been taken, the next step consists in recognising and meeting the resistances in an orderly way. Techniques of self-analysis and group analysis are employed to recognise the resistances and work through them, once the implications are seen by the members. Members may be supplied necessary feed-back and group discussions may be held to present the situation and spell out the risks involved. The presentation should be such that strong points are appreciated and the need for change and improvement is brought out. This will dispel defensive fears. In addition to this, a group discussion, if conducted properly, has the advantages of securing commitment, producing cathartic effects, causing role clarification, and pooling of ideas and opinions. It is needless to say that time perspective and a sense of pace is as important here as it is elsewhere.

### *Appraising Use of Research Results by Remeasurements*

To keep the tempo of change going it is sometimes necessary to measure the changes arising as a result of implementing the research recommendations and to check that they do result in improvement. Such information, when fed regularly, keeps the ball going fullspeed. At times, pilot-projects might have to be run to demonstrate the viability of research conclusions. Instances are known when such demonstrations generated demands from unforeseen quarters where new applications, although not foreseen as part of the original plan, suddenly came to light.

### *Improving Communication*

Lack of communication is frequently a formidable barrier to the application and extension of research findings. The top management not knowing what the researcher could offer limits his requests to a few possibilities as suggested by this restricted knowledge. On the other hand, the researcher might not be familiar with the agency organisation and the true nature of its problems. Consequently, the design might be out of focus or it might be centred around a minor manifestation of a more deep-rooted problem.



The insights available from literature and experience have been elaborated because application of social science research involves modification of patterns of behaviour and institutional structures of which the administrator himself is a part. Although, application of physical or biological sciences also requires acquisition of knowledge and skills to adopt the recommended technology, yet the mass of changes has to do with relatively inert material or invertebrate life. Once their laws of behaviour are known and can be reproduced in controlled conditions, manipulation becomes relatively easy. However, in case of human beings, these changes include perceptions, beliefs and response habits of the action agent himself. The scope for manipulation from outside is thus limited. The process of change will have to engage the conscious psychic energy of the action agent as the principal force for causing perspectival changes.

#### RELEVANCE OF SOCIAL SCIENCE RESEARCH — THE ADMINISTRATIVE SIDE

The issue of perception of relevance and utilisation of social science research cannot be fully understood without reference to the motivations which cause search for help. Likert mentions the following factors as constituents of such motivation.<sup>4</sup>

(a) Problem sensitivity arising from dissatisfaction with the present state of affairs; (b) Image of potentiality through which social research is perceived as contributing to a higher level of achievement or the solution of the problem; (c) General experimental outlook as a result of training and past experience. To these must be added factors of feasibility, cost, time, organisation, etc.

Improvement of relevance perceptions and increased utilisation of products of social scientists cannot result unless the need for certain changes in administrative behaviour and administrative structures is fully recognised. Here the road-blocks are many: inadequate knowledge about how research can help in the planning of work and its assessment; mood of complacency and a lurking fear of change; impatience to wait; unwillingness to put measures of programme change into effect; lack of familiarity with scientific procedure; and scientific language. The obstacles arise because of lack of training or because of personality factors and problem-solving styles which do not take into account the long range effects of the administrative action and cause blindness to perceive remote but very vital constituents of administrative environment.

The administrator's response to research services depends on his previous training and experience. While intellectual alertness, power of

<sup>4</sup> Likert and others, *Some Applications of Behavioural Research*, UNESCO, 1959.

written and oral expression and range of information are often tested at the time of selection of administrative services, rationality orientation in problem solving, and first hand experience of conducting research activities are not included in the criteria of choice. Nor is the development of ability to use action research procedures incorporated as part of formal training and orientation programmes. The result is a very imperfect state of readiness on the part of a typical administrator to use research material for perfecting decisional products and designing plans of organisational development. Refresher training might make up the deficiency to some extent but it requires flexibility and some ground work prepared in advance to make full use of such training. To what extent the existing recruitment and training procedures can be modified to provide the administrator with a heightened sensitivity for social science research for solving complex problems of administrative action is a big question. Till a new type of leadership takes up command of administrative positions, the existing administrative leadership has to be developed to perceive the changing environment of administrative action and interpret relevant cues in a non-complacent frame of mind. Training in human relations and complacency shocks through careful involvement in action procedures might develop some of the sensitivity potentials but, other things being equal, administrators with an experimental outlook and acquaintance with social science procedures would tend to move faster than others in perceiving the relevance of the contribution of social scientist to the problem on hand.

A good indicator of the state of readiness is the ability to define the problems and issues which are sought to be clarified through the help of a social scientist. The careful formulation of the terms of reference is a first step to the initiation of focussed and meaningful research activity. Arrangements to obtain a brief on procedures and tools of enquiry do require good deal of investment of time. However, it is necessary to assure in advance that the vital information which will be needed for decision-making is incorporated in tools designed for the purpose of enquiry and procedures are reasonably expeditious and focussed to produce timely and valid results. Assimilation of facts and recommendations presented in the interim and final reports require patient hours of study and discussions with social scientists but it is worth while to do it if limitations on generalisability of results and action implications of recommendations are to be clearly understood.

We may now discuss some of the institutional arrangements to ensure fuller use of social science advances.

(1) Periodical seminars or refresher programmes on applications of current research in social sciences to policy process or legislative issues

could boost up the image of potentiality of social science research and develop attitudes of mutual respect. The much needed feed-back of how administrators view the efforts of social scientists and what are the further areas of research endeavours corresponding to the administrative problems being faced might improve relevance of social science research.

(2) A similar effect can be produced if research retrieval exercises taken up by various research institutes in specific fields of social sciences could be reported in easily assimilable form with their possible implications for policy and administrative action. A couple of good examples are: 'Technology and Employment' series of International Labour Organisation under World Employment Programme,<sup>5</sup> and the 'Demonstration Research Bulletins', U.S. Department of Health. The Indian Council of Social Science Research has started devoting a part of its bulletin to this feature.<sup>6</sup> However, the treatment of summary of completed research programmes needs to be focussed around the specific needs of administrative readership.<sup>7</sup>

(3) The relevance of social science research to policy process can be considerably enhanced if research agenda is developed in advance as part of programme development thrust.

The social scientist working as a consultant can make recommendations regarding information needs and research priorities after consulting key decision-makers in administration and leading social scientists working in the field. An apt illustration is the memorandum on 'Observed Needs for Research and Planning in India toward Employment and Income Generation' by George Tobias.<sup>8</sup>

(4) It would reduce cost and ensure quicker appraisal if the information system is designed with the help of a social scientist who will like to go into existing forms of reporting and the nature of emerging information needs on the part of programme administrators and evaluation specialists before finalising his recommendation. He may run trial tests and revise the manual of instructions. It would facilitate retrieval of massive data from administrative reports for research purposes after subjecting it, where necessary, to sample test audits. Often researchers find themselves compelled to gather evidence afresh because the reported

<sup>5</sup> ILO, *Research and Action Project Relating to Technology and Employment*, World Employment Programme: Progress Report No. 1, Oct., 1972.

<sup>6</sup> Quarterly Bulletins of the Indian Council of Social Science Research.

<sup>7</sup> Ronald Lepitt, *Feed-back Process in Community*, National Laboratories, No. 4, 1905.

<sup>8</sup> Ford Foundation, New Delhi. Memorandum dated Oct. 6, 1971.

data have lost comparability or are inadequate in some vital respects or have been gathered under conditions which cannot ensure their validity and reliability.

(5) The guidance organs of several government-financed research institutions may include a senior administrator to participate in decision-making. The opportunity can be used to ensure that administrative needs are taken into account when research programmes are formulated and research design and research reports are sufficiently focussed to clarify important questions of policy. The participation also enables the administrator to sensitise himself to the constraints inherent in the structure of research activities and limitations imposed on research results by technical and non-technical factors.

(6) An opposite movement is necessary to sensitise the social scientist to the nature of the administrative process and the intricate meshing of organisational details and constraints it implies. Because of historical reasons, the structure of Indian Administrative Services has barred horizontal entries to academicians and non-government professionals in management fields. Despite their association on study panels, advisory committees and positions of programme consultancy, their participation has been on the periphery of administrative action rather than in the heart of the administrative process. Wherefrom will be bred the qualities of flexibility, dynamism, habits of study, independence and open-mindedness unless the exclusively bred stock of administrators occupying higher echelons of Indian Administrative Services is cross-fertilised with an exotic strain from Universities, academies, business houses and voluntary bodies possessing these qualities in abundance? Hopefully, those who choose research careers—which could include young administrators academically oriented—would not be found lacking in the capacity for 'relevant' and 'responsive' thinking after having undergone training in the esoterics of administrative language and behaviour and its methods of disciplined work even under conditions of severe stress.

#### A SUGGESTED PROCEDURE

There are very few recorded accounts of procedure through which the relationship movements between the social scientist and policy administrator have culminated in a mutually satisfactory outcome. Based on whatever accounts are available and combining them with research insights scattered through the literature on the subject, the following procedure may be suggested. The author claims validity of the procedure through personal experience. However, replication is

needed before its generalisability is extended to cover settings other than those where citizen participation is a key ingredient of policy.

#### *Co-orientation*

The initiative may come from a social scientist, if he sees potentiality of his research insights in the clarification of a policy issue. He has to locate the administrator who is likely to have stakes, is willing to listen and commit resources. The initiative may also come from the administrator having a keen sense of a problem or dissatisfaction with the outcomes of a policy. If the social scientist and administrator are already linked through institutional relationships, the communication of the sense of problem and potentiality of social science research enterprise to clarify it might come sooner. The administrator needs to apply his mind to the nature of information gap or confusion of causative factors which is bothering him. The search for the social scientist must be guided by the requirement that he has demonstrated advanced understanding of the problem and that he may be trusted to conduct the enquiry at a level of competence sufficient to clarify the dimensions of the problem for which the current departmental resources, arrangements and expertise are inadequate. The scientist needs to be oriented to the problem. The social scientist might ask for time to retrieve relevant material from earlier pieces of research and writings, key administrative reports and memoranda. It would be helpful to commit terms of reference in writing at this stage. The social scientist may ask for a further session to find out expectations of the administrator about behavioural and non-behavioural outcomes, factors underlying several input decisions, structure and process of administrative action initiated to implement the policy and so on.

#### *Pre-study Brief by Researcher*

Based on the orientation meetings, the researcher might prepare a plan of study with outlines of sample procedures, plan of field or laboratory work, scheme of analysis, time schedules for completing various operations, cost estimates, etc. Before approving the plan of work the administrator needs to assure himself about the general orientation of the plan, the time when he expects interim and final reports and the reasonableness of the costs.

#### *Launching of the Studies*

After the plan is approved, the conducting of the study is primarily the responsibility of the researcher. However, it helps if the administrator is kept informed of the progress of work. He may be called upon to

remove difficulties, if any, in data collection work. The importance of an interim report cannot be overemphasised if the research work is likely to take longer than the administrator can wait without any interim feed-back.

### *Feed-back and Interpretation*

At the feed-back stage, the social scientist gives the administrator an understanding of the salient points of methodology to help him interpret the significance of the results, comparability of interpolation, extrapolation, etc. He may then proceed to present results about situational dynamics—the direction of change, extent, character of forces causing it, etc. The social scientist needs to translate the ‘Why’ of research reporting into ‘How’ of actual implementation. This requires an ability for creative and realistic thinking and an intimate understanding of the working of administrative organisation.

### *Trial Run*

Before the recommendations are implemented wholesale it would be desirable to test the feasibility of the recommended course of action by gaining experience of the problems of implementation, costs etc., on a smaller scale. A Department, Unit or Pilot Project Area may be earmarked for setting up the experiment. The experience gained could be helpful in getting a clearer concept of changed role patterns, nature of orientation needed to anticipate and deal with resistances, type of information system necessary to control the progress of the programme, time-lags, costs, etc. However, if the pressure for change is overwhelming, this stage may have to be skipped.

### *Planning and Launching Action*

The administrator has to assume responsibility for planning and launching action based on the recommendations of the social scientists. This includes getting government resolutions formulated and communicated, setting up orientation programmes, drawing plans of operation, delegation of powers, making arrangements for supervision and flow of administrative intelligence, clarifying money release and expenditure control procedures, etc. However, there is need for involving the consulting social scientist at this stage also and communicating to him major decisions regarding implementation. The social scientist might help the administrator in designing, and if necessary, conducting orientation programmes at different levels of organisation. He may sensitise him to some of the resistance patterns and suggest to him methods to deal with the same. He may also provide useful assistance in designing a reporting system.

*Periodic Evaluation*

Evaluation needs to be institutionalised as a built-in arrangement at the pilot project stage. Unless this is done it is difficult to examine the implications of extending the area of applicability of the experiment. Besides, timely feed-back about what is being achieved or where failure is being experienced helps in keeping up the tempo of change.

A LIBERAL TRAIT IN A CONSERVATIVE CULTURE

H.W. Beers wrote of programme evaluation in India as a 'Modern trait in a very ancient culture'.<sup>9</sup> In an administrative culture permeated deeply by ideas of hierarchy and conformism, the acceptance of the role of social scientist as an internal critic, observer and evaluator, to whom administrative leadership could offer its performance for critical appraisal, is a bold socio-cultural innovation. It is a liberalising influence in a conservative culture.



<sup>9</sup> Beers Howard, *Programme Evaluation in India*, Rural Sociology, Vol. 25, No. 7 1960, pp 430-444.

## SOCIAL SCIENCE RESEARCH AND ITS ADMINISTRATION

*V.G.K. Thathachary*

ROBERT Solo's<sup>1</sup> observation that no positive correlation is evident between the national rate of economic growth and the national level of research and development expenditures is only a half truth. It is now well recognized that a nation's power and prosperity are vitally influenced by the scale of its research effort. This is borne out by the proliferation, rather deprecatory, of research establishments all over the world during the last few decades. In the historical context, we could link the arrested development of Indian economy to the fetters of colonialism, but the failure of the colonial system was itself due to its indifference towards integrating the administration into the social framework of the country.

The need and scope for research in social sciences have had a phenomenal growth during the last quarter century, but as has happened in many other countries, the growth of social sciences in India has been slow and erratic. The social scientists themselves are not sure of their goals and they look for precision and a global understanding of the problems of accelerated social development in the country. As pointed out by Andrew Shonfield and Cherns,<sup>2</sup> the present performance of social sciences in India is very uneven, both as between institutions and as between disciplines. As in many other spheres, there is a barrier between thought and action in our social and economic administration.

Till recently, the social science research in this country had been largely undertaken in some of the University departments and in a few other centres with the support of the Research Programmes Committee (RPC) of the Planning Commission. It is true that this activity of the RPC had created a certain amount of research consciousness in the country, but this has only touched the fringe of the problem. It is only after the establishment of the Indian Council of Social Science Research

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<sup>1</sup> Robert A. Solo, *Gearing Military R & D to Economic Growth*, Harvard Business Review, Nov. 1962.

<sup>2</sup> Andrew Shonfield & A. B. Cherns, "Social Science Research in India", Occasional Monograph, ICSSR, New Delhi, 1971.



(ICSSR) in 1969 that a matrix of dialogue among the widely scattered groups of social scientists, working in the same and allied fields, has been sought to be created.

Our problems are numerous, urgent and complex. We have to compress within a short time-frame the kind of changes that have been brought about in the Western world over the span of a couple of centuries. The planned development that we are seeking to achieve, initiated by the late Shri Jawaharlal Nehru, who had the vision of modern India as a democratic and socialist State, is a dynamic process of social and economic transformation. In this context, we should congratulate the ICSSR for starting in right earnest, during the last four years of its existence, to tackle the problems of social science research in the country in a concerted manner. The recent dialogue initiated by Prof. J.P. Naik through the ICSSR Newsletter is a welcome trend. This would<sup>3</sup> enable those in authority to crystallise their thoughts and to evolve a unified and action-oriented pattern of development for the social sciences research in the country. This paper has been written with the same objective in view; i.e., to stimulate thought and discussion on the problems of social science research in this country and its administration and to produce a plan of action for the immediate future.

### I. NEED FOR SOCIAL SCIENCE RESEARCH

The advantages of research as a tool to evaluate the existing situation and to recommend appropriate policies and programmes have been recognized but, for this, we need more sophisticated conceptual and methodological tools. The recognition that effective social and economic planning would be possible only when reliable and relevant data were available to the planners led the Planning Commission to set up the Research Programmes Committee in 1953. As the problem grew in complexity and dimension, the Government very wisely set up the ICSSR in 1969.

Today, the field of application of social sciences include fields where the use of social science discipline is well developed, like Economics, and also fields where this is much less so, like Education. As defined by the ICSSR,— social sciences include the following: Economics including Commerce; Education; Management including Business Administration; Political Science including International Relations; Psychology; Public Administration and Sociology, including Criminology and Social Work<sup>4</sup>.

<sup>3</sup> Newsletter, April 1971, ICSSR, New Delhi.

<sup>4</sup> Occasional Monograph, ICSSR, New Delhi.

Our society cannot delay dealing with its major social problems. We should do something concrete to alleviate the sufferings of our people and to improve the quality of their lives. We must respond to the challenge of the times and should accelerate the process of change. There is an unmistakable evidence of the emergence of new urges and aspirations in sizable sections of our population. We have to be responsive to these urges and aspirations. We must act quickly to protect and ensure human dignity and freedom from exploitation of our fellow citizens and to draw them into the mainstream of national life so that they can also make their distinctive contribution to the growth of our country. They want the process of growth to gather momentum and the results of growth to be distributed equitably.

The research mobility of social sciences has been increased by the development of methods and instruments appropriate to the problems investigated. Consequently, a greater range of individual behaviour and of institutional arrangements can be subjected to empirical studies and larger amounts of data can be analysed and interpreted more rapidly. Of course, a great deal of responsibility rests on the users of social data. The policy maker cannot and should not act on his hunches and instincts. Planning, forecasting and evaluating the effects of the programmes require extensive and detailed data. The assessment of the outcome of deliberate interventions in social processes will also require data and accurate information. Organised labour and collective bargaining present additional opportunities for the application of social sciences. Labour unions have turned to the social sciences for assistance in adapting their practices and activities.

Both for understanding the social problems historically and geographically and to project the future development of the country, a larger volume of reliable data on a continuous basis have to be obtained, both at micro and macro levels, and a systematic and scientific analysis has to be undertaken in order to make any meaningful contribution to the development processes of our economy.

Moreover, the high complexity of the society and its environment today make it necessary for an inter-disciplinary approach to social and economic problems. Just as the problems of change, of modernisation and of socio-economic<sup>5</sup> transformation are many sided, so the solutions to these problems have to be many sided too. As pointed out by Prof. S.C. Dube, we need today an understanding of the sociology of affluence as well as that of the sociology of poverty.

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<sup>5</sup> *Newsletter*, June 1972, ICSSR, New Delhi.

Social science research throws up valuable background data which, if carefully designed and analysed, would enable the planners to make their own assessments for policy formulation and would enable the testing of the validity of the assumptions that are made by them in stating their objectives. These studies would also enable the planner to estimate the possible consequences and cost of the different choices available.

As pointed out by the Committee on Behavioural and Social Sciences in U.S.A., there are many expressions of concern that behavioural and social science knowledge is not better used by management in industry and policy makers in Government<sup>6</sup>. On the other hand, the latter charge that social scientists do not answer their questions; the scientists reply that they are asked to give advice only in times of crises, are not given appropriate assignments or are not listened to in those areas in which they are best equipped to be of service. The problem is complex; scientific information must be collected, stored and retrieved in response to particular situations. Users must be educated about the functions and methodology of social science research and about the interpretation of social science data. On the other hand, the social scientists must be educated about the problems concerning the Government and the industry. Fruitful cooperation between the manager, the policy maker and the social scientists depends on mutual understanding of the terms of their collaboration. This is possible only where they work together. Unfortunately, the data on behavioural and social science research outside the University are fragmentary. While much of engineering and scientific research is done in large laboratories with special research budgets, much of social science research goes on in small units.

### *Present Status of Social Science Research in India*

Original work in the field of social sciences research in the country has not been significant. Although many have worked on the themes initiated by foreign social scientists, we ourselves have not produced many social thinkers or social scientists of outstanding repute. Some of the recent thought-provoking articles on the subject have clearly pointed out that the Indian social scientists lack initiative and our research is not problem-oriented. Our scientists and their researches reveal inadequate awareness of public responsibility and have failed to accelerate the pace of change in a developing society like ours. They

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<sup>6</sup> *The Behavioural and Social Sciences Output and Needs*, Behavioural and Social Science Committee, USA.

also lack the spirit of team work; the emphasis even now is on individual research. Even the research schemes sponsored and financed by the ICSSR till now have by and large been of such a nature that they have made very little contribution to any original thinking on our peculiar social problems either conceptually or methodologically. Of course, Government support has provided an impetus to social science research, but it has mainly resulted in a great deal of mechanical and poor output.

As has been said earlier, social science research in this country has been mainly in the University departments where facilities for research and training are inadequate. The heavy teaching loads leave very little time or zest for research. The project leaders can find very little time to guide and direct the projects. They have hardly any time or cost consciousness.

There are several obstacles to the utilisation of social science knowledge<sup>7</sup>. There is frequently no institution or agency to note such knowledge and act upon it. And in many cases, social sciences provide current descriptions or predications of events, but no solutions to the problems.

As pointed out by the Social Science Research Council, U.K<sup>8</sup>, a Research Council like the ICSSR should look into two directions—one, it must give support to projects which have immediate significance and which arise out of internal logic of the discipline concerned. On the other hand, it must bring these disciplines in relation to problems of practical policy by supporting research in current policy issues and ensuring that there is adequate rapport between policy-makers and researchers.

Academics emphasise that many practical problems cannot be solved by approaching them bare-handed and that a long term build-up of basic knowledge is a pre-requisite. The research user argues that purely self-generated research may become merely an intellectual pastime or worse, a by-product of career and promotion pressures within the academic system. The Rothschild report emphasised that research councils should leave decisions about useful research to the users and that the disposition of funds at their own free disposal should be confined to the area of basic research. It also emphasised the need for close relationship between researchers and users. Little purpose would

<sup>7</sup> *Knowledge into Action*, Special Commission on the Social Sciences of the National Science Board, USA, 1969.

<sup>8</sup> *Annual Report*, 1971-72, SSRC (UK),

be served by supporting research that is intellectually weak, however important the subject may be to which it is addressed.

According to the visiting Committee<sup>9</sup>, the ICSSR should try to gain the confidence of the social science fraternity among whom there exists a considerable resistance to any suggestion of central direction of research. What is intended is only central guidance and central co-ordination of research. While there is nothing wrong with duplication of research in the strict sense of the term, the ICSSR need not be concerned with the projects financed by others, except to the extent that they should be able to collect information for proper dissemination. The Council should, therefore, avoid the role of a Government agency exercising authority over all social science activity. It should be clear to everyone in the field that the ICSSR is there to represent them; it stands for freedom of enquiry and expression of opinion and will not consciously be a party to any erosion of academic values and freedom. The Council should be the channel through which the Government communicates its needs and desires but when the Council itself takes a decision, it should be clearly understood that it is derived from the views of the social scientists who act as the guardian of academic aims and standards in their disciplines. The Council should be intimately concerned with problems of public policies and should be visibly independent. The ICSSR should maintain a certain separateness, a little distance from Government departments and Government agencies. To have senior civil servants as voting members of the Council is not a good system, but as important users of research, they should be associated with debates and discussions and in deciding the programmes of work and priority areas. By bringing researchers into contact with each other, by arranging conferences and informal discussions, and through its publications, the Council could promote research in areas where a particular priority exists.

Social science research can be supported both in negative and positive terms. Negatively, the Council could decline to support projects in certain types of areas; and positively, it could encourage University and research institutions to undertake projects of national importance which could be supported and financed by the Council. However, this may not always bring about the desired results due to various factors including the non-availability of trained personnel in the fields in which the Council would be interested.

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<sup>9</sup> Andrew Shonfield and A.B. Cherns, *op.cit.*

## II. RELEVANCE OF SOCIAL SCIENCE RESEARCH

Relevance of social science research has to be viewed from three angles—(i) relevance to the individual researcher, (ii) relevance to the Society, and (iii) relevance to the discipline concerned.

In this context, the recent dialogue<sup>10</sup> initiated by the Indian Council of Social Science Research is most welcome and is very interesting. One must agree with Prof. J.P. Naik that significance and relevance of research is as important as quality in research. Therefore, as an organisation devoted to development of social science research in the country, the ICSSR has necessarily to ensure that on the basis of national policy for social science research, the relevance of research in all its three aspects, is given due consideration.

The Indian Council of Social Science Research was established to promote social science research in the country, to expand its quantum, to improve its quality and to facilitate its utilisation in policy formulation and national development. The Council's aims and objectives are very wide and extensive. Whether the Council can hope to achieve all or most of them is a matter for assessment in the future over a reasonable period of time.

*Relevance to Individual Researcher*

The relevance of social science research to the individual researcher stems from the fact that he wants to retain his individuality and freedom of action which can bring out his best in furthering the cause of the society. But in these days when problems are complex and the solutions require pooling of resources and inter-disciplinary approach, to what extent isolated forms of research could contribute significantly to any solutions of the diverse social and economic problems of the country is a moot point. Therefore, we should see if it is worthwhile wasting our meagre resources on supporting isolated individual projects scattered here and there which produce no tangible results. The argument that this enables the development of social sciences talent is very questionable and may not be commensurate with the resources open.

*Relevance to Society—Role of ICSSR*

In regard to the relevance of social science research to the society, it has a much wider implication. The ICSSR has itself programmed to

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<sup>10</sup> Newsletter, April, 1972, ICSSR, New Delhi.

promote projects<sup>11</sup> in which social scientists and institutions will be involved on research problems or in areas which have national importance. It also proposes to widen the base of research centres and institutions by roping in newer centres and institutions which show interest and potential. In the broad national scene, the Council proposes to invest a larger portion of its funds in priority areas while continuing to support research in other areas also. This is in addition to the research schemes being sponsored and supported by other agencies.

In all its programmes, the Council is said to be non-competitive and would not undertake any research programme under its direct auspices or promote any institution or centre of its own. One cannot quite understand the basic philosophy behind this. It appears there is some restriction on it. We will come to this later. It is good that the Council should lay emphasis on certain programmes which would otherwise tend to be neglected like inter-disciplinary research and comparative studies, inter-regional collaboration and closer linkage between users and producers of social science research and international collaboration. The Council has undertaken a large survey of important research work done so far in different disciplines of social sciences and this will be published in a number of volumes by the Council shortly. In addition, the Council also gives study grants, fellowships, research grants, publication grants, etc.

Prof. J.P. Naik is quite right when he says that national purpose will not be automatically served by the cumulative effect of discrete and disparate individual decisions. We should try to build up necessary safeguards for academic freedom and institutional autonomy in the national policy for social science research itself.

In a vast country like ours with our accelerated programmes of economic balanced development and the need and desire of making good the past backlog, the importance of undertaking social science research, on a massive scale, will not brook any delay. In this context, I cannot see how a central unit like the Indian Council of Social Science Research can succeed in promoting research and training in a variety of fields covering the whole gamut of social sciences by supporting and sponsoring projects here and there. When we have gone in a very big way to initiate and support scientific research, by establishing a large number of national laboratories and research institutes in different disciplines of science, why should we not establish independent National Research Institutes in specific fields of social sciences spread all over the country. Why can't we have a separate institute

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<sup>11</sup> Annual Reports, 1969-70 & 71-72, ICSSR, New Delhi.



for theoretical economics, a separate institute in applied economics, another for psychology, another for sociology and so on and so forth. Of course some institutes do exist (e.g., National Council of Applied Economic Research, Indian Institute of Public Administration, Institute of Economic Growth, Institute of Applied Manpower Research, Shri Ram Centre for Industrial Relations, Institute of Mass Communication, etc.) which could be supported and strengthened in a big way, but we should plan to establish and start research institutes in different disciplines. This does not also prevent us from having some regional research institutes, as in the case of physical sciences, to take care of problems of regional nature. Also it does not take away the importance of a unifying and coordinating authority like the Indian Council of Social Science Research, which will establish the broad national policies to be evolved, decide about the institutes and programmes to be started and make broad financial allocations for these different institutes. Here, a better appreciation of the need and importance of social science research on the part of the Government is called for. In dealing with income-tax exemption for contribution to research the present act makes an invidious distinction between scientific research and social science research by making the latter a little restrictive in its application [sections 35 (i) (ii) and 35 (i) (iii)]. There is hardly any justification for this in the present context.

### *Operational Framework*

One cannot also understand the logic behind the limit prescribed by the ICSSR on the number of projects to be granted at a time to a University department or to a research institution. The fact that unlimited number of projects would enable larger institutes to get a higher quota of research funds need not deter one from doing the right thing. After all what we are interested in is the development of social science research in important fields and areas of national relevance and if some of the University departments or research institutes have the necessary background, experience and other organisational support, why should we not support them in the larger national interests? This again does not preclude the Council from trying to support or shall I say prop up, some unit here and there wanting to do research in social sciences. Limiting the number of projects, as has been pointed out by the Visiting Committee of the ICSSR, will only encourage the concerned departments or institutes to adopt a strategy of choosing projects which will produce more advantageous results financially, with very little relevance to any research policy developed by the ICSSR. While, therefore, the Council can by its own policy restrict either the amount or the number of projects to be given to any particular institution to suit its own overall



policy of national relevance, the restrictive number would, in my opinion, give a psychological twist to the content and scope of the studies that might be undertaken by these institutions.

Another aspect which I will deal with a little later in greater detail will relate to teachers' grants, administered through institutions concerned. One should not deny the fact that this would only dampen the enthusiasm of the individual researcher, because, as we know the administrative rigmarole of our educational institutions, it can only limit the freedom of action of the research worker and make him do more administrative than substantive work.

The recent policy of the ICSSR to encourage long range research programme<sup>12</sup> is a welcome step. However, the procedures envisaged might be too cumbersome and irritating. There are many other simple ways to ensure that proper quality work is done and the research support is given for the right kind of programmes. The ICSSR should examine this problem and devise suitable administrative procedures to streamline the formalities involved in sanctioning these programmes.

In this context, one other aspect requires serious consideration. In sponsoring and supporting research projects and programmes, the Council must necessarily make a meaningful discrimination between an individual, a University department and a well-known research centre. They should not and need not follow the same methodology. While it is necessary and relevant to ensure that research facilities are available for an individual worker or a University department, it should make sure that the project would be done in time, and within cost as well as it could be, the same need not hold good in dealing with an established research institute where it is the institution which takes responsibility for the successful completion of the project and not necessarily an individual research worker. Here what the Council should be concerned with is whether the project is worthwhile, the cost estimate given is reasonable and the institute is basically equipped to deal with such projects. The detailed mechanics of staff members to be employed, their background and other details should be left to the genius of the individual research institution.

### *Contract Research and Consultancy*

We in this country are still new to the concept of contract research. Barring a few exceptions, possibly very few, most of the

<sup>12</sup> Annual Reports, 1969-70 & 71-72, ICSSR, New Delhi.

research that has been carried out so far has been on the basis of requests for support from individual researchers for whom research has been only a side occupation. It is only during the last few years that some research centres have been established to undertake contract research in the country. Here again this has been much more pronounced in the field of economics than in any other field. Even here the concept has not been properly understood and implemented. By and large, research has been and is being sponsored and financed by the Central or State Governments or their agencies. The research consciousness has not yet made a dent in the private sector excepting a few large houses who have their own cells; but even here the research is mainly that dealing with marketing. Here the user organisations go with a problem to the concerned research institution who would work out a detailed project outline in consultation with the sponsor and work out the cost estimate on the no-profit and no-loss basis. So far the arrangement has been on the basis of "Heads I win and tail you lose". If there is saving in a project on the basis of a detailed audited statement of account maintained and prepared by the research institution, the unspent balance has to be returned to the sponsor. If for any reason, the research institution over-runs its budget for a project, the sponsor will only stick to his sanctioned figure. This is not only unfair to the research organisation, but also would encourage the research institution to adopt unfair practices to make good their accounts. Fortunately, there has been a change in the attitude of the Government by which the Government would now allow the research institution to balance their budgets on an overall basis for the year as a whole, subject to the sponsoring authorities ensuring in the beginning that the cost estimates were, by and large, reasonable. This is a welcome trend and should be encouraged in all such research institutions.

A few well-established non-University and non-Governmental institutes serve both Government and industry through grants and contracts and carry out a certain amount of research on their own initiative. Some of these institutes have indicated that an increasing part of their growth is an aspect fitting within social sciences. These include studies relating to population dynamics, information processing and control, natural resources control and planning, education, urban system planning, systems economy research and manpower planning. There are also institutions who specialise in the field of market research.

Here the practice of consultancy is vital. Consultancy enables the research worker to have a better understanding of the problems faced by the users of research with the result that both in their training programmes and in formulating their research projects, this could be of

considerable use to them. At the same time in doing consultancy work they bring to bear on practical problems a new line of thought based on empirical research which could have a direct bearing on evolving suitable solutions for specific problem areas. It is in this context that one should view sympathetically and favourably the idea of inter-change between academics and the government who are the bulk users of research and also between industry, the Government and the University and research institutions. This inter-flow will greatly enrich the relevance of social science research in all its aspects and is bound to increase its value for the society.

### *Relevance of Funding for Research*

The Visiting Committee report on ICSSR has quite rightly pointed out<sup>13</sup> that it would be undesirable to have rigid lines of demarcation between research topics suitable for direct government funding and those suitable for indirect funding by the Council. Certainly the Council should finance individual projects which are important and practicable. Normally as it happens an individual research worker or a university department would come only to a funding organisation like the ICSSR and the direct funding by the Government would mainly relate to either sponsored or supported projects undertaken in large research institutions, since obviously Government departments cannot deal with individual research workers.

Research funds expended through institutes is greater than the amount spent directly on research personnel<sup>14</sup>. The survey operations are costly; at least two-thirds of the research institutes and the departments of major universities are not primarily concerned with applied social science research. The Social Science Research Committee of USA has commented upon the small size of most institutes and their dependence on one or more academic departments to provide the framework for the social scientists. Most institutes draw upon departmentally based faculty for part-time staff who are pulled two ways toward the institute's purposes and towards the academic role of the departments. Most institutes do not control the training of the students who work in them, and indeed few even organise courses. With rare exceptions, the students are academic stepchildren. Such institutes face a number of difficulties like their lack of control on the tenured faculty positions. They do not have professionals who are actually

<sup>13</sup> Andrew Shonfield and A.B. Cherns, *op. cit.*

<sup>14</sup> *The Behavioural and Social Sciences Output and Needs*, Behavioural and Social Science Committee, USA.

required for projects and the staff is wasting a great deal of time in writing proposals and in negotiating them, tempted to move in directions where the money is, which may not always be where its research objectives do or should move. The same basic arguments would probably apply to Indian conditions.

### *Collaborative Research*

There is, however, a rather negative attitude towards research that is of interest to agencies outside the country which have no direct relevance to the national or local situation. Collaborative planning can avoid such negative approach and accord recognitions and status to those involved in research. Here the notable part being played by the OECD Development centre is worth mentioning.<sup>15</sup> The OECD Development Centre has been established to enable the developing countries which are not members of the OECD to benefit from the valuable experience acquired by it and by its member countries in the field of development and to provide information needed by OECD members to adopt their assistance policies to meet the needs of the developing world in the most effective way possible. Their main activity is research into development problems, that is, economic development and statistics, technology and industrialisation, social development and demography. They have also undertaken important programmes of cooperation between social and economic development and training research institutes. They have formed three regional associations for Africa, Asia and Latin America. The Asian Association of Development Research and Training Institutes is in Bangkok. A number of Indian Institutes are already members of the Association. This Association will, in addition to organising regional meetings of Directors, publish catalogues of research and training institutes and programmes in the field of social and economic development and also publish a liaison bulletin as a complement to the catalogue. A few journals in India also undertake this task.

Inter-regional cooperation has brought about considerable benefit to the participating countries. The Organisation for Comparative Social Research in Norway has had an important impact on the development of modern social science in Belgium, France, England, Germany, the Netherlands, Norway and Sweden. An important product of the collaboration, in addition to the exchange of publications, has been the scientific preparation of a list of social scientists who are occupying positions of importance at university or research institutes in Western

<sup>15</sup> Information Note, May, 1973, OECD.

Europe and who in turn, are actively engaged in training new social scientists. Another example is the project of the University of California in the development of economic training and research facilities at the University of Indonesia. There is also the programme of the Harvard Business School in training management scientists of the Institutes of Management in India. The European Association for Experimental Social Psychology was established to bring together European research workers for their mutual benefit. The International Social Council is working towards the development of an international social science community. One of its most interesting experiments is the formation of a European Coordination Centre for Research and Documentation in Social Sciences which was established in 1963 in Vienna with financial assistance from UNESCO to provide an institutional structure designed to facilitate international collaboration on research in a large number of countries. The centre has developed comparative cross national research programmes on such diverse topics as industrialisation, delinquency, economic assistance and development, peace, social development, national planning and diffusion of innovations in rural communities.

The UN Research Institute for Social Development has distinguished itself in three major areas of research; (i) inter-relationship between economic and social factors in the development process, (ii) the methods of social planning as a means of influencing the development process; and (iii) the problems and methods involved in the adoption of social change. The Institute has started a new programme of research and training in connection with regional planning, according to which a preliminary study of several regional research projects are to be carried out to select some of them for the creation of Research and Training Centres.

The Institute of Development Studies at the University of Sussex has compiled the Development Studies Research Register covering all U.K. based research projects in social science concerning all developing countries. This gives the details of the projects on the basis of problem area index, geographical location, an alphabetical list of researchers' names and their projects and an index of researchers' sources of finance, and the postal address of the institutes mentioned in the catalogue. It also contains information on resources of libraries.

The International Development Centre of Japan undertakes studies of those having relation to Japanese supported development work as well as on the work of regional and international organisations. The Centre also can initiate research projects based on the Centre's

assessment and needs. Further, the Centre can comply with requests from developing countries for research or assistance in project planning and implementation. In many cases one would find that the Institute has more information on the developing countries than the concerned countries themselves.

The East West Technology and Development Institute of the East-West Centre, Honolulu has four orientation themes—Entrepreneurship, Technology Adaptation, Integrated Development Planning, and Institution Building.

The Stanford Research Institute in California has a Long Range Planning Service which alerts executives world wide to significant changes in the business environments and their impact on industrial concerns and provides information on advanced corporate planning and management techniques. The L.R.P. reports summarise both the current status and the future outlook for specific developments in markets and technology. Over 500 companies buy these data sheets.

The United Nations Social Research Institute is a policy-oriented organisation. It is directed towards the raising of levels of living. It does not promote research for the sake of advancing science. Its concern is with the collection and analysis of information that throws light on the most effective policies and programmes of improving levels of living.

UNESCO has five lines of action for the advancement of comparative research:

- (i) Documentation and clearing house activities;
- (ii) Advancement of the methodology of comparisons;
- (iii) Comparison of data and findings for different countries;
- (iv) Advancement of training in cross national comparative analysis; and
- (v) Planning and execution of joint international inquiries.

### *Collaborative Research in India*

In India, the same attempt has been made in a very haphazard and loose manner. The Committee on Research in Planning and Development was established in the Planning Commission to enable four or five research institutions in the country to undertake

projects which were of direct relevance and importance to the Planning Commission and to train abroad staff of these institutions and the Planning Commission. Originally, the funding for these projects was through the Ford Foundation and now directly by the Planning Commission. The Committee meets only very rarely and one is not sure if these programmes have been of any significance and use in the policy formulation of the Planning Commission and whether the Commission has obtained adequate returns on the amounts spent on those projects either directly or through the Ford Foundation funds. Besides, there is hardly any worthwhile coordination or cooperation between either the research institutes among themselves or between research institutes and the Planning Commission in relation to the projects. While, therefore, the idea was good, the execution has been very tardy and half-hearted. Here the ICSSR could fill the gap both in respect of coordination of research studies and in regard to the dissemination of research knowledge through-out the country.

### *Utilisation of Research*

One of the major objectives of the ICSSR is to ensure proper utilisation<sup>16</sup> of research undertaken in the field of social sciences in the country. This is really a tall order; while certainly the Council can try to help and advise the Government and educate their officials about the policy implications and project the future on the basis of the studies sponsored and financed by the Council, it cannot obviously force the Government to utilise the results of researches. This could be due to various reasons—either lack of proper appreciation on the part of the Government or the absence of personnel in the Government who can have the proper understanding and ability to formulate and execute policies which have relevance in the national context on the basis of studies conducted at different centres in the country or the inadequacy of the data presented. However, the ICSSR, it is good to know, is seized of the matter and has proposed to tackle this in a variety of ways such as identifying areas of significance, improvement in the quality of research, prompt publication of research findings, bringing together the producers and users of research in a sustained dialogue in the planning of research programmes, arranging periodical discussions between researchers and the decision-makers, etc.

The independent Council of Social Science Research, as a central body representing social scientists of all disciplines, should prepare an annual report to pin-point the problems of social development in the

<sup>16</sup> Annual Reports 1969-70 & 71-72, ICSSR, New Delhi.



country, the achievement made so far and the problems that are yet to be faced together with possible solutions thereof. This would serve as a sort of a broad guideline for all social scientists and for the planners and policy-makers. This would incidentally enable the Council to have an introspection of its own role.

### *Data Bank*

One of the greatest bottlenecks for the development of social science research in this country is the lack of adequate data. The programme of activities of the ICSSR does include the provision of a Data Bank in the country. One of the best examples of a Data Bank is that of the Social Science Research Council in U.K. at the University of Essex established in 1967. The Bank has data relating to social and economic affairs from academic, commercial and governmental sources so as to make the data available for further analysis. The wide scope of the Data Bank encourages secondary analyses of data for purposes quite different from those for which the data have originally been obtained. The data input takes many forms—punched cards, paper tapes and magnetic tapes. Depositors may provide or arrange for the Data Bank to reproduce copies of their data records. They may also deposit the original material. The Bank assists prospective depositors in standardising data preparation and providing adequate documentation of data, so as to increase the usefulness of the data to the original collectors as well as other users. The Bank collects, “cleans” and stores the data and reproduces or carries out further analyses which would otherwise be difficult or in most cases impossible for them to secure. Service depends on the original collectors’ depositing the data in the Bank and this in turn depends on the Bank’s ensuring that the data are made available to users on conditions that adequately protect depositors’ and respondents’ interests. The Data Bank helps depositors in Data preparation and Data storage.

A recent report has indicated that the Social Science Research Council of USA has established a Centre for Coordination of Research on Social Indicators<sup>17</sup> with a view to contributing to the development of a broad range of indicators of social change, in response to demands from both social science and policy committees.

The importance and urgency of having a similar Data Bank in our country needs no emphasis. A Special Committee should be

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<sup>17</sup> IIPA Newsletter, August, 1973, IIPA, New Delhi.



appointed to investigate in detail the procedural and technical problems involved in devising a national data system, designed for social and scientific purposes and recommend solutions for these problems and propose methods for managing the system that will make data most useful.

Comparatively very little primary data is being collected in our country and there is a large gap in our basic information. The National Sample Survey which does collect some primary data and some of the surveys of other research institutions in the country take a very long time to be tabulated and published to be of any useful and practical value to research workers and policy-makers. Besides, the demands made on the National Sample Survey within the Government itself are already so heavy that it cannot be expected to extend its services to the non-Government research community. This problem, therefore, needs very urgent attention and should be given top priority by the Indian Council of Social Science Research.

### *Training of Research Workers*

A significant aspect of the relevance of social science research is the question of training. It is the experience not only in this country but in other parts of the world that there is a dearth of qualified and experienced research workers at all levels from field investigators to project directors. As pointed out by Shri. P. Ramachandran in his report<sup>18</sup> on Research Methodology in Social Sciences in India, a large number of individuals are not prepared to take up or be considered for temporary research jobs mainly because they are more interested in permanent positions with security of job, promotion, etc.

The *ad hoc* nature of employment and the consequent poor service and working conditions have, on the one hand, resulted in a tremendous wastage of research manpower and, on the other hand, have created a dearth of good research workers. Incidentally, the suggestion made earlier of establishing independent Research Institutes for each discipline would take care of this problem to some extent. Although many of the university departments in different social science disciplines offer programmes of training in research methodology and a number of persons have done doctoral work, the question of providing trained research workers is still one of the greatest problems. Much of our doctoral research work has been mainly one of library research. Besides after the thesis has been completed, the researcher is no longer interested or

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<sup>18</sup> P. Ramachandran, *Training in Research Methodology in Social Sciences in India*, Occasional Monograph No. 4, 1971, ICSSR, New Delhi.

may not be concerned with research. It is true that today nearly all schools of social work offer a compulsory course in social science research and require all their students to undertake research project work.

Training in methodology of research can be productive only if the students have sound conceptual background and the training programme itself is imaginatively organised with a clear definition of its objectives. The programmes organised by the ICSSR in different centres recently was a welcome step. There are also a few other organisations/institutes who offer such courses.

The majority of the research projects are manned by graduates and postgraduates with very little training in research methodology. Most of the research institutes do not have a programme of providing a course on research methodology to their research workers since this is not in their line of work. Only a very few who have had training in research methodology take to research as a career. The Social Science Research Council, therefore, should give considerable attention to this aspect and provide extensive training in research methodology to as many students as could be absorbed in research institutes and departments to enable them to make a career in research. For this purpose, it would be necessary to develop a model syllabus for the training programmes for different levels of staff and for different duration of times.

On the other hand, there can be no substitute for on-the-job training. There are some institutions where they take fresh graduates or postgraduates at the lowest level, train them in field work and statistical analysis for about three years and send them out for association with actual research projects in other centres. This experiment should be encouraged so that more and more people, trained in research methodology, are available for the country. Although this could mean a certain amount of loss of trained manpower to the concerned institution, this forced mobility is a step in the right direction.

Allocation of funds between support for research and support for post-graduate training is a major issue.<sup>19</sup> In the short run, the scope for varying research expenditure is limited because existing commitments take time to run off and new commitments take time to build up into substantial annual expenditure. It is no good training a large number of researchers and then withholding the funds needed for using them. There should be stability of funding both in regard to the post-graduate training as also research so that supply and demand be in large match.

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<sup>19</sup> Annual Report. 1971-72, SSRC (UK).

The idea is that the universities should produce such number of qualified social scientists and research workers as could be absorbed by research institutes and other organisations. There has to be a constant dialogue between the producers of research workers and their users. Otherwise, we will land up where the engineers are today, and where doctors and chartered accountants will be tomorrow.

### *Relevance to Discipline*

Relevance of social science research to the discipline is equally important. Without such a relevance the researcher will be purposeless, and will drift from the basic objectives. In this context, one should concede that the authority to decide questions of significance and relevance should be an academic authority consisting of social scientists in the concerned field but what is important is that from the point of view of discipline, studies should be such as would promote the development of the discipline itself; that is, it should promote what is called theory building or methodological improvement. The controversy between theoretical and applied research has no real meaning. One does not subsist by itself; they go hand in hand and both are equally important and the research studies should be related to promote both the theoretical and applied aspects of the concerned field. As mentioned by Prof. J.P. Naik, variety of ideology is welcome, but integrity is important<sup>20</sup>. In research, involvement of the scientists and their integrity are basic. The academic freedom of the individual and of the research institution to pursue research of their choice and claim reasonable assistance to funds allocated to research is fundamental.

### *Role of Behavioural Sciences*

Not much attention is being paid today in this country for the development of behavioural sciences and this requires immediate attention. The dominant role of behavioural sciences in dealing with social and economic problems, including that of administration, has now been well recognised. In fact, a recent OECD Conference held in Paris paid considerable attention to the utilisation of behavioural science in improving the quality of work environment, as well as to have a more efficient use of human resources<sup>21</sup>. The university departments should have a separate faculty of Applied Behavioural Sciences with degree programmes and they should be encouraged to take up special research programmes in this field. We should also organise a separate Society

<sup>20</sup> Newsletter, April, 1972, ICSSR, New Delhi.

<sup>21</sup> "Public Administration and Economic Development", OECD.

for Behavioural Sciences and encourage starting of more journals in this field.

From the foregoing, it is obvious that there is urgent need for accelerating the tempo of social science research in all its disciplines to provide answers to our varied social and economic problems.

### III. SOCIAL SCIENCE RESEARCH ADMINISTRATION

#### *The Need for It*

Research should be conducted on lines likely to ensure maximum efficiency and output. In this context, research management has to play a useful role for the development of research. Inasmuch as it is an essential factor in industrial development and prosperity, research can no longer be carried out anarchically, at the whim of individual inspiration.<sup>22</sup> It must be conducted on lines likely to ensure maximum efficiency and output. It has been said that we live in the age of managers. Research could not expect to remain untouched by the development and in fact a new discipline is born, i.e., research management and research administration. In research management, there should be both freedom of research and organisation; there may be even some apparent contradiction between the two, but they must be reconciled. When either of these two elements gains the upper hand, research is paralysed. If research workers are left entirely to their own initiative there is a risk of anarchy, sterility and waste of time and money in useless research and abortive projects. But, if on the other hand, a research assignment is forced into a rigid mould and over-supervised, it will kill the creative spirit, and the initiative of the individual tends to be smothered. It is, therefore, necessary to properly organise and manage research by combining freedom and organisation and foster an atmosphere in which the creative spirit can be developed. In research, organisation is not an end in itself, it should be at the service of the research worker.

Even in the developed countries there are very limited possibilities of training in research management. One has to learn largely from one's own experience and that of the others. It is, however, widely recognised that there is need for systematic and specialised training which will supply a positive groundwork of rules and principles soundly based on practical experience and help research managers to avoid the errors and pitfalls of the past. Of necessity, the management of research has been largely intuitive as has been the case with our industry till recently.

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<sup>22</sup> Alan Pons, *Research Management*, OECD, 1965.

Contrary to the belief of many, there is no significant body of data or empirical evidence upon which to base a more rational approach to research management.

Although planning procedures have been formalised and quantitative techniques have been developed, there will certainly be a need for judgement to evaluate alternatives and to recognise the non-quantifiable factors in the problem. Research management in social sciences too stems from the recognition that judgement about what is worthwhile doing almost invariably contains an element of personal taste and opinion.

### *International Experience*

Most of the international research organisations have administrative link with the respective international bodies. There are others like the Department of Applied Economics in Cambridge, East-West Centre, Honolulu, the Graduate School of Business Management in the Universities of California and Los Angeles, the Institute of Development Studies, Sussex, the Survey Research Centre, Michigan and the Centre for South-East Asian Studies in Kyoto which have a link with the universities. In some of these cases, the major administrative aspects are looked after by the University including the accounting part of it. There are however a few like the National Institute of Economic and Social Research in London which has a sort of a link with the Government. In most of the countries including a country like U.S.A. bulk of the research work is being sponsored by the governmental agencies and only to a limited extent by private organisations. In fact, there are some like the National Institute of Economic and Social Research, London, Brookings Institution in Washington and Rand Corporation in Los Angeles who would not undertake work for the business community at all. On the other hand, there are those like the Stanford Research Institute, U.S.A. and the Nomura Research Institute in Japan who work both for the government and for the private organisations.

The basic funding of those organisations also varies. Some get a certain amount of donations and contributions from the business community while others have a sort of endowment which enables them to have a large amount of flexibility and independence in their work. Most of the institutions decide what work they should take up during the next year and try to sell the projects to some sponsors either to Government directly or to the Social Science Research Council or to the Foundations. A remarkable exception is the Institute of Developing Economics in Tokyo whose programme of work is prepared and reviewed by an

Advisory Committee and finally approved by the Government itself. Although the overall budgeting of the institute is in terms of the programme of work, research accounts of the institute have no relevance to the staff expenses. Although it appears to be as good as a Government department, one could see they have a fairly large amount of flexibility and independence in their research work.

In most of the institutions abroad, their work is inter-sectional and inter-divisional. In a peculiar system in U.S.A. some of the institutions respond to a sort of bids—what they call R.F.P. “Request for Proposals”. In the case of the Technology Research Centre, Honolulu, the programme of work is on the basis of the Resolution of the Senate of the State. There are some institutions like the Operations Research Survey Centre, Los Angeles as also the Survey Research Centre at Michigan who organise household surveys. It may be worthwhile trying this idea in our country also. The interviewers are not permanent and are not regular staff of the Centre. They are paid on hourly basis. There is a ten per cent sample check and the editing, coding and punching is a continuous process. In fact, before they go to the field, they go with the coded schedules with the result that they know the exact number of cards required and the programme is decided in advance. In the Survey Research Centre, Michigan, they have a permanent national sample which is revised once in 10 years. For almost all their work, they use this sample instead of preparing a sample every time. It saves a lot of time and money.

Quality control in research is important and this is achieved in different institutions in different ways. In some places, there is an Editorial Board or a Group of Editors which goes through reports so that from the exposition and presentation points of view, they are really first-rate. In some other organisations they send out reports for outside review on honorarium basis, but almost in all cases, there is a system of internal discussion by way of seminars, etc.

There are quite a few research institutions who have also training programmes as a part of their activities as in the case of the Brookings Institution, International Development Centre of Japan, etc.

Fixing a programme of work first involves choosing between a number of ideas and projects. One major problem involved in choosing among ideas proposed for a research work, is the task of costing the project. Detailed project accounting is maintained and every staff member has to account for his time to one project or the other. In



most of the places, accounting work is mechanised and the data are collected and collated in the Data Processing Unit and the statement of accounts of the projects is given to the concerned project leaders periodically. This varies from every week in SRI to one month in The National Institute of Economic & Social Research, Mitsubishi Institute and other institutes. Almost every direct expense of the institution is charged to one project or the other. The overheads again vary in almost all these institutions and it is anything from 25 per cent to 160 per cent. In institutions like the SRI and Rand Corporation, this is periodically decided by the government on the basis of past year's experience. Another good system which they have in the above two institutions is that they charge an additional fee of 6 to 7 per cent which may be called "Developmental Fee", to enable the institutions to equip themselves better with capital equipment, building, etc.

Except in Japan, in all other places, recruitment is on the basis of merit. Recommendations and references from universities and other places are considered. In some places, there is a system of interviews. All appointments and promotions are on individual basis and on the basis of merit and this is done primarily on the basis of the recommendations of the Heads of Divisions. This is possible because there is a free movement between one Centre and another and for really good research workers, job opportunities are not wanting. Unfortunately, the same is not the case in our country. It is only in Japan that they go mainly by seniority. In most of the organisations, again except in Japan, staff is on contract basis. They are not permanent. In organisations like Rand Corporation, they have a separate Salary Review Board for senior and junior officers which considers recommendations of the Heads of the Divisions.

Dissemination of knowledge obtained through social science research is very crucial and most of the research institutions abroad have a very good programme of publication. Some publish the research work on their own and some get it published by outside publishers. Generally, publication is by the institution but the names of the authors are mentioned and the views are those of the authors and the royalty and copyright are with the institutes. In some cases, however, only if the institution thinks that the report is not worth publishing, the author can go out and get it published on his own, as in the case of National Bureau of Economic Research and the Brookings Institution.

Provision of library is a very important aspect of research; almost all the research institutions have very good libraries with good professional staff and they cater to the staff on project-oriented basis.

*Administration of Research by ICSSR*

The conference of project directors held by the ICSSR in 1972<sup>23</sup> showed that the administrative procedures in the universities tended to cause delay in the project administration and there was considerable delay in scrutinising the proposals recommended by the ICSSR. They also needed help on technical training in survey research methods. ICSSR could standardise measures, scales and such other instruments used in social science research and the Council should hold workshops in specific areas in which project directors and experts could be brought together.

If ICSSR has to operate with maximum speed and efficiency, it has to have a sound, professionally qualified and trained secretariat in different disciplines of social sciences so that they could take quick and objective decisions without reference to committees and boards. In fact, the financial powers of an Advisory Committee to sanction only up to Rs. 5,000 for a project is too small considering the time and magnitude involved in the research projects these days. Since the Advisory Committee consists of professionals in the concerned discipline, they should have considerably wider powers to sanction all projects in the concerned discipline, unless there is any policy implication involved.

The Council has published a Directory on social science research in India and this should be periodically revised. In addition, the Council should also produce a Directory of social scientists in the country who are associated with academic and research work.

The Council should ensure that a substantial increase in funds is made available from the Union and State Government for supporting basic and applied research in the social sciences. In U.S.A. an annual increase of 12 to 18 per cent has been recommended for social science research.

Social science administration has two aspects—one from the point of view of a fund-giver like the ICSSR or a government department and the other, the practical administration of research in a university department or research institute. In the case of the former, the important thing is that the sponsoring authority should take effective steps to screen and sanction the projects in the quickest possible time with the least amount of bureaucratic red-tape. The procedures involved should be simple and straight-forward and the guidelines should be clear to all

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<sup>23</sup> Annual Reports 1969-70 & 71-72, ICSSR, New Delhi.



potential research teams. They should also have a proper appreciation and understanding of the problems faced by research workers in completing their projects in time and within the cost. This is not to say that time and cost are unimportant. For example, a research survey meant for completion by the ICSSR in March 1972 is yet to be completed but by the very nature of a research assignment when one has to depend on data from varied and different sources, some readily available and others to be collected and collated, delay and increase in cost would always be liable to occur and the funding authority must have a proper appreciation of this important element. At the same time, the sponsoring authority has the responsibility to ensure that the projects are completed within reasonable time as far as possible, within the amount sanctioned. One need not go to the other extreme where there are some projects sponsored by the Research Programmes Committee some years ago but they have not yet seen the light of the day.

From the point of view of the research organisation, they should have a fairly large flexibility in operations. The research workers with all their academic background, by and large, are very highly sensitive people and the research management and administration requires very keen sense of understanding, human relationship and ingenuity to deal with the problems. Research administration is only a means to an end. They have to ensure that they are only for service to the main body of researchers and they must appear to be so.

### *Evaluation of Research*

There are no useful numerical yardsticks to measure research effectiveness. Broad composite human judgements are the only way to evaluate research performance. Precise calculations of the contributions of research projects accomplish nothing. These decisions are made fragmentally, *i.e.*, for individual projects, programmes or areas of inquiry. It is the sum of these segmental determinations that establishes the course and contribution of the whole programme. It would appear there is considerable agreement among scientists that frequent attempts to evaluate creative research activity are essentially a waste of time which usually have a good psychological effect on managers and a poor one on research professionals. Creativity cannot be forced and a researcher is never really idle since when he is not obviously working, he is 'thinking'. As it is, in research organisations, there is no time to 'think'. Therefore, they should also be like their colleagues in the academic life; they should get sabbatical leave, to enable them to become up to date in their academic fields.

*Budgeting and Accounting of Research*

In Western countries researchers on short-term projects spend their idle time between projects working on advance concepts and researchers on long-term projects spend a couple of weeks on advanced concepts. The time thus spent on thinking and preparing research proposals is charged to the overheads of the concerned department.

One of the most damaging operations in research management is the budget which is prepared and then forgotten. Research professionals think that the preparation of a budget is a useless task which should be given the minimum attention and time possible. To avoid this, the budget should be used as a standard against which performance is measured. This implies some sort of variance analysis. Budgets should not be immutable but should be difficult to change. Perhaps the real values of a budget are its effects on motivation and internal discipline.

Evaluating the financial performance of research includes determining research costs, selection of cost elements, budgeting and reporting, combined technical and financial reporting. Financial management of research means—planning and budgeting, project authorisation and financial reporting and this minimises details for higher managers, enables timely and useful financial reporting and predicts year-end finance early.

A time schedule and cost estimate for each work package should be developed with the participation of responsible individuals. The basis for control is reporting performance as the project moves along. Simple information obtained frequently and quickly is more useful for control than elaborate detailed breakdowns that arrive after the opportunity for effective action has passed. Again, project performance has three dimensions—technical, time and cost. All three must be reported consistently and simultaneously to permit valid control decisions to be made. The important thing is that some appropriate action be taken, that it be taken as quickly as possible after the problem arises, and that it be taken at the lowest level of management, capable of correcting the problem.

Over-runs could be due to inefficiency of research operations. Solution is better communication. The participative approach to developing and operating a budgeting and control system may help to convince researchers that budgeting and control are tools that they can use to help them succeed in their technical endeavours. The function of the budgeting and control system is to provide information to

everybody who is involved in a responsible way with the project so that he can decide when and what must be done to keep the project in balance.

The cost of the unsuccessful efforts must be borne by the successful one, which can be arranged by utilising some reasonable method of cost-transfer allocation and this is possible only if research project cost is not accounted for on a project basis.

It has been established that a competent research group will invest not less than 10 per cent—and probably 20 per cent—of its scientific and technical talent in the acquisition of data and information from which new applied research recommendations can be, and are drawn. This expense should be charged to overheads. Here the Data Bank plays an important role. On this basis, while the indirect or overhead charges will be more, the direct expenses will be less and the projects can be completed quicker.

### *Incentives in Research*

Non-monetary incentives appear to be more important stimuli for both professional productivity and general job satisfaction than monetary incentives<sup>24</sup>. Individuals in more affluent circumstances and better paid occupations, like research workers, are likely to be more concerned with recognition of their individual accomplishments. Among the non-monetary incentives, associated with both professional productivity and general job satisfaction in university research organisations are a high degree of freedom in the choice of research assignments, opportunity for inter-disciplinary research, and opportunity to attend professional meetings.

The facilities for research must reflect a scientific research atmosphere which is created by an air of studious quietness, readily available technical library, source files of information, and neat, clean, yet efficiently functioning, infrastructure facilities. Ostentatious display is not necessary and in some cases will actually cause a negative effect upon the viewer.

Motivation is very important and motivation of research begins by motivating the scientific and technical personnel who make up the research group. A professional research worker would expect (a) the opportunity for his academic advancement, at the organisation's

<sup>24</sup> Stewart P. Blake, *A Manager's Guide to Research and Development*, SRI.

expenses; (b) the encouragement to belong to and financial assistance for his participation in professional societies; (c) the encouragement and assistance required in preparing research papers and presentations to be made before specialists; (d) adequate financial awards for direct and indirect contributions; (e) financial and status advancement based on merit as measured by his contributions; (f) competent managerial supervision; (g) relief from the tedium and intrusion of routine managerial and administrative problems; and (h) the opportunity to engage in challenging work.

With regard to rewards, these must be made on a timely basis, being given as soon as possible following the recognition of notable accomplishments. The reward should not be made indiscriminately and must be given to the right person in each situation. It is better not to reward at all than to reward the wrong person. The reward need not always be limited to a financial form. Consideration should also be given to other reward forms, including that of increased prestige within the research group by virtue of title changes, a better room, telephone facilities, better personnel secretariat facilities, etc.

One of the major problems of research administration particularly in large institutes is the ranking of research personnel which is an outmoded concept. Once a person is taken at a starting point with basic post-graduate degree in the concerned field preferably with training in research methodology, he should be able to move up steadily and should be able to concentrate on his work without mental strain of financial worries and ranking in status within the organisation, etc. The best thing would be, therefore, to have say, research officers and senior research officers who have only two scales which have a long time span, say, for example, with one from Rs. 500-1000 and the other Rs. 1000-2000 with suitable increments, etc.

### *Research Manager*

A small proportion of social scientists is employed on whole time research in research establishments; whereas a large number of natural scientists are so employed. This difference has important implications both for the career structure of scientists and for the administration of research.

A participating and consulting type of management is more effective in research activities than a form of management in which research programme decisions of management are left completely to individual scientists. At the same time, research scientists should be freed from day-to-day administration work which may be taken care of by the administrative manager.

Man, Money, Machinery, Materials—these four sum up the conditions required for any successful research. The last three are essential but only man, the first element, can give them value. Man is the researcher as well as the research manager. He must, therefore, be an efficient organiser, alive to economic problems and business management methods. He must also be able to draw up a budget, work out the cost of a programme and apportion the funds he receives. Research management calls for very special ability in the matter of human relations. A good research manager can be recognised by the quality of his relations with his colleagues in other departments and above all, with his research staff. Research management demands a very subtle psychological sense.

One of the most difficult problems of research management is the efficient use of research staff. There again, the problem is to reconcile organisation and free initiative. A research manager must therefore have a thorough knowledge of his staff, their qualities and their shortcomings and must also be well aware of the psychological problems inherent in any team work.

It is generally believed that the established rules of business management cannot be profitably applied to organised research efforts; this is not true. In fact, the direct management of research is in itself an administrative art—an art that requires as much painstaking study and development as pure science. If this is accepted, the broad indifference of management to the control of hours and schedules in the performance of research efforts is somewhat surprising.

The administrative management of a research group relieves the research personnel from the tedium of management and administrative responsibilities to the extent possible. Besides they also provide the essential infrastructure facilities and other services; thus a research worker is freed as career scientist and is encouraged and motivated towards that end.

In actual practice, the structure should be well ordered with clearly drawn lines of authority and responsibility both vertically and laterally. The typical research worker is acutely aware of titles and 'academic ranking'. The avoidance of a rigid organisational structure within the scientific and technical component offers a practical way around this problem. If all of these research workers are made aware of the specialisations and capabilities of the other members of the group, and if each is made to feel that he is able to contribute to someone of a lesser rank the total research effort will proceed more smoothly and more effectively.

It is highly improbable that research could be conducted either effectively or economically if a purely academic atmosphere and mode of operation were established within the organisation.

Research administration is, therefore, a vital link for the success of social science research and we cannot afford to neglect this. We must develop our own genius in research management to suit our own background and socio-economic and political conditions.

#### IV. CONCLUSION

The rate of growth of social sciences will depend on the wisdom and foresight with which they are organised and funded. In spite of the initial difficulties, these disciplines will continue to develop both as sciences in their own rights and as aids in the handling of social problems.


Solutions to some of our social problems would be slow and difficult. Even though their content and methodology are constantly improving, and they promise to be much more utilitarian, it is plain that some problems will defy solution in the short run. This is partly because of their sheer magnitude and the amount of resources and power that will be necessary to effect change; it is also because some features of the problems may be deep-rooted in our primitive customs, beliefs and attitudes and may not be amenable to changes easily. But we must carry on the fight with courage and wisdom and apply ourselves with renewed vigour and enthusiasm to face the social and moral dilemma of the present age. We know we have the capability, but we lack determination and organisation. Social scientists will have to make strenuous efforts to fill this gap and work collaboratively with those who manage educational institutions, government agencies, research organisations and philanthropic foundations, as well as with the public at large.

To achieve these objectives, they will have to learn how to improve the integration of their diverse knowledge and techniques and the public must have a voice in what they do, not only by giving credence to the scientific information gathered by the social scientists but more importantly by participating in decisions that effect the utilisation of scientific knowledge to further the cause of humanity of all its varied aspects.

The main sustenance of social science will in itself be the off-shoot of continuous and systematic researches in the different disciplines of social sciences and the pragmatic and understanding way in which the

research is administered and fostered in the country. Let us hope we in India will prove equal to the task ahead.

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## MEASURING THE EFFECTIVENESS OF PUBLIC SERVICE COMMISSIONS IN THE NEW STATES: SOME RELEVANT INDICATORS

Jon S. T. Quah

THE purpose of this paper is to describe a proposed research design for measuring the effectiveness of Public Service Commissions (PSCs) in the new states of Asia and Africa. The PSC is the adapted version of the United Kingdom Civil Service Commission (CSC) in the former British colonies and was established to keep politics out of the civil service and to accelerate the pace of localization of the public bureaucracy. In short, the PSCs are the central personnel agencies of those Afro-Asian countries which have been under British rule, e.g., India, Pakistan, Ceylon, Nepal, Malaysia, and Singapore.

There are several reasons for this research choice. First, the focus is on organizational effectiveness because it is "one of the most complex and least tackled problems in the study of social organizations".<sup>1</sup> Moreover, very few attempts have been made to measure the effectiveness of public or governmental agencies. Indeed, the bulk of research in this area has been on private or industrial agencies.<sup>2</sup> Hence, this attempt to measure the effectiveness of a particular type of public agency—the PSC—in the former British colonies in Asia and Africa. If effectiveness is defined as "the degree of goal-achievement",<sup>3</sup> it is only possible to measure the effectiveness of an organization so long as the type of organization or its goals are explicit. In other words, the effectiveness of organizations cannot be measured in general terms, but in terms of the specific organization concerned. Therefore, any measurement of organizational effectiveness must focus on a particular type of organization—the PSC in this case.

The PSC is selected as the type of organization to be measured according to the criterion of effectiveness for three reasons. In the first

<sup>1</sup> Basil S. Georgopoulos and Arnold S. Tannenbaum, "Subjective and Objective Output Indicators," *Policies, Decisions and Organization*, ed. by Fremont J. Lyden, George A. Shipman, and Morton Kroll (New York: Appleton-Century-Crofts, 1969), p. 245.

<sup>2</sup> See for example, *ibid.*, and some of the studies in James L. Price, *Organizational Effectiveness* (Homewood, Ill., Richard D. Irwin, Inc., 1968).

<sup>3</sup> Price, *op. cit.*, p. 3.



place, the research on organizational effectiveness is culture-bound in the sense that it is restricted to the United States only. James L. Price, in his inventory of studies on organizational effectiveness, observes:

"The most serious present need is for studies of non-American and non-Western organizations. It is impossible to develop a 'theory of the effectiveness of organizations' with studies performed almost exclusively in the United States."<sup>4</sup>

The focus on the PSC, then, reflects an attempt to partially rectify the research gap on studies of organizational effectiveness in the developing countries by initiating research in this area.

Secondly, the existing research studies on the PSC are either single case studies in a particular country<sup>5</sup> or comparative studies.<sup>6</sup> Such studies are mainly descriptive and deal with the role, structure, and functions of the PSCs in the various former British colonies of Asia and Africa. None of them attempt to consider the question of effectiveness or even to measure it. Apart from the functions of keeping politics out of the civil service and of accelerating the pace of localization, the PSC is also responsible for the appointment, promotion, transfer, and disciplinary control of public servants. It is also in charge of the "fixing of salaries and wages, complements and grading (or classification of posts), conditions of service, negotiations with Staff Associations, organizations and methods, training"<sup>7</sup> and in some countries such as Singapore, the function of awarding of scholarships, training awards and bursaries.<sup>8</sup> Given the multiplicity of important functions undertaken by the PSC, it is necessary to ascertain whether this agency is doing a "good" job or doing what it is supposed to do. If it is found that the PSCs in the new states are not effective, steps could be taken to decentralize such institutions by relieving them of some of their functions. In short, the effectiveness of the PSCs in the developing countries

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<sup>4</sup> Price, *op. cit.*, pp. 205-206.

<sup>5</sup> See for example, C.N. Bhalerao, *Public Service Commissions of India* (New Delhi: Sterling Publishers, 1966); L.G. Coke Wallis, "The Public Service Commission in Nigeria," *Civilisations*, X:2 (1960), pp. 233-238; and R.O. Tilman, "Public Service Commissions in the Federation of Malaya," *Journal of Asian Studies*, XX:2 (February 1961), pp. 169-213.

<sup>6</sup> See for example Jon Siew Tien Quah, *The Public Service Commission in Singapore: A Comparative Study of (a) its Evolution and (b) its Recruitment and Selection Procedures vis-a-vis the Public Service Commissions in Ceylon, India, and Malaysia*. (Unpublished Master of Social Science Dissertation, Department of Political Science, University of Singapore, 1970).

<sup>7</sup> A.P. Sinker, "What are Public Service Commissions for?" *Public Administration* (London), XXXI (Autumn 1953), pp. 208-209.

<sup>8</sup> See Quah, *op. cit.*, p. 12.

must be measured in order to determine whether they are capable of performing the various functions accorded to them.

Finally, the PSC is chosen because the writer is familiar with the available literature and has completed a comparative study of the PSCs in Ceylon, India, Malaysia, and Singapore.<sup>9</sup>

### *Indicators of "Effectiveness"*

Before identifying the specific hypotheses to be tested, the concept of "effectiveness" must be defined and the various indicators of "effectiveness" identified.

As mentioned earlier, Price defines "effectiveness" as "the degree of goal-achievement". This definition is not very useful because of its vagueness. A more elaborate and useful definition of "effectiveness" has been provided by Basil S. Georgopoulos and Arnold S. Tannenbaum:

"We define organizational effectiveness as the extent to which an organization as a social system, given certain resources and means, fulfils its objectives without incapacitating its means and resources and without placing undue strain upon its members. This conception of effectiveness subsumes the following general criteria: (1) organizational productivity; (2) organizational flexibility in the form of successful adjustment to internal organizational changes and successful adaptation to externally induced change; and (3) absence of intraorganizational strain."<sup>10</sup>

Their definition of "effectiveness" is adopted in this paper but not their indicators as these are only relevant for their study of an industrial service specializing in the delivery of retail merchandise, and not for a public agency such as the PSC. Nevertheless, the indicators to be used do reflect to a certain extent the three criteria specified by them.

Before specifying the various indicators of "effectiveness" of a PSC, it should be noted that the following list of indicators is arbitrary and not exhaustive but it represents an attempt on the part of the writer to describe the major factors influencing the effectiveness of the PSCs in the new states.

The first two indicators of effectiveness are related to the general criteria of organizational productivity, *i.e.*, the extent to which the PSC

<sup>9</sup> See Quah, *op. cit.*, p. 12.

<sup>10</sup> Georgopoulos and Tannenbaum, *op. cit.*, p. 248.

has been able to achieve its goals. To reiterate, the principal goals of the PSC are: (1) to increase the pace of localization in the civil service, and (2) to keep politics out of the civil service. The first indicator measures the *speed of localization* in the civil service by ascertaining the rate of localization of the civil service in the country before and after independence. As localization refers to the process by which expatriates in the government services are replaced by local citizens, the rate of localization is measured by determining the ratio of expatriates to local citizens in the civil service prior to and after the attainment of independence. The speed of localization is high if there has been a drastic decrease in the number of expatriates and a considerable increase in the number of local citizens in the civil service after independence has been achieved. In other words, the ratio of expatriates to local citizens in the public service has decreased from over one in the pre-independence days to less than one in the post-independence period. On the other hand, the speed of localization is low if there have been no significant changes in the pre-independence ratio of expatriates to local citizens in the civil service. Data on this indicator can be collected by checking the records on localization provided in government documents and by examining the various studies on localization of the civil service in Asia and Africa.<sup>11</sup>

In order to ascertain whether politics has been kept out of the civil service by the PSC a second indicator, the *reliance on achievement criteria* in recruitment and selection by the PSC is required. In the recruitment and selection of personnel, the PSC has to keep the civil service free from political and personal influences by first eliminating all forms of patronage by "keeping the rascals out" and second, by attempting to find the best men available and putting them in.<sup>12</sup> In order to keep the rascals out and recruit men of high calibre into the public service, the PSC has to rely on achievement criteria in its selection of personnel rather than ascriptive criteria. Its reliance on achievement criteria is absolute if ascriptive considerations do not play any part in the selection of public officials. Conversely, its reliance on achievement criteria is nil if ascriptive rather than achievement considerations govern the selection of public servants. Data on this indicator can be gathered by asking a stratified random sample of bureaucrats outside the PSC,

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<sup>11</sup> See for example, D.S. Dass, *Malayanisation: Malayan Civil Service (1945-1957)* (Unpublished Academic Exercise in partial fulfilment of the requirements for the Degree of Bachelor of Arts with Honours in History; Department of History, University of Singapore, 1961); Richard Symonds, *The British and their Successors: A Study in the Development of the Government in New States* (Evanston, Ill., Northwestern University Press, 1966); and R.O. Tilman, *Bureaucratic Transition in Malaya* (Durham, N.C.: Duke University Press, 1964).

<sup>12</sup> Sinker, *op. cit.*, p. 206.

the members and staff of the PSC itself, university students, and the general public, their reaction to the following statement:

"The PSC relies on achievement criteria (such as the requisite educational qualifications, and experience) rather than on ascriptive criteria (such as race or family connections) in the recruitment and selection of candidates into the civil service."

The respondents will be asked to state whether they strongly agree (5 points), agree (4 points), are undecided (3 points), disagree (2 points), and strongly disagree (1 point) with the above statement. A high score shows that the respondents believe that the PSC relies more on achievement rather than ascriptive considerations in selection, while a low score indicates the opposite.

The remaining set of indicators deal with some of the internal characteristics of the PSC such as: the *level of training* of its members, the *level of morale* of its members and staff, the *stability of the staff work force*, and its *volume of work*; as well as such external factors as the *prestige* or image of the PSC and the *size of the country*. Each of these indicators will now be briefly considered.

The size of the membership of the PSC varies from three to twelve depending on the country. For example, there are three PSC members in Ceylon, six to nine in India, and six to twelve in Malaysia.<sup>13</sup> The members of the PSC are appointed on the basis of the following five criteria: (1) high public standing, (2) detachment from politics, (3) possession of high judicial or legal qualifications, (4) previous working experience in the civil service, and (5) representation of minority groups.<sup>14</sup> As one of the major functions of the members of the PSC is to select the most suitable candidates for the civil service by means of a personal interview after such applicants have satisfied certain requirements (such as educational qualifications for example), the amount of *training* of the members in interviewing techniques is another important indicator of the effectiveness of the PSC.<sup>15</sup> It seems to me that PSC members who have not undergone training courses in interviewing will make poorer interviewers than those who are trained interviewers. Data on this indicator can be easily obtained from the write-ups on the members in the newspapers when they are first appointed to the PSC; or alternatively by interviewing the members themselves.

<sup>13</sup> Quah, *op. cit.*, p. 57.

<sup>14</sup> *ibid.*, pp. 38-39.

<sup>15</sup> "Interviewers should be trained . . . The most conspicuous and damaging failure at this time is the lack of training." V. R. Taylor, "A Hard Look at the Selection Interview," *Public Personnel Review*, XXX: 3 (July 1969), pp. 152-153.

The next two indicators—the *level of morale* of the PSC members and staff, and the *stability of the staff work force*—have been suggested as two indicators for measuring the effectiveness of a personnel programme by Boris Blai, Jr.<sup>16</sup> As the PSC is the central personnel agency in the former British colonies in Asia and Africa, these two indicators can be used to measure the effectiveness of the PSC also. As PSC members serve for a fixed number of years—usually five years—specified by the Constitution, the morale of the members can be ascertained by the number of resignations before the terms of office expire. The morale of the PSC staff can be gauged from the number of grievances or complaints voiced by staff members. The latter can be determined from interviews with staff members, or by administering a questionnaire on job satisfaction to them. The stability of the staff work force can be measured by the “turnover” rate of the staff or the number of staff members resigning from the PSC. Details of this are available in the annual reports of the PSC.

The *volume of work*, the sixth indicator, refers to the number of applicants interviewed by the PSC annually. My own research has shown that the PSC in Singapore is much more effective than that in Ceylon and one manifestation of this is the heavier workload of Singapore compared to Ceylon which is larger in size and has a larger population. This is obvious from Table 1. Data on this indicator can be obtained from the PSC annual reports.

TABLE 1  
NUMBER OF APPLICANTS INTERVIEWED BY THE PSCs IN CEYLON  
AND SINGAPORE FROM 1964 TO 1967<sup>17</sup>

Year	Number of Applicants Interviewed	
	PSC, Ceylon	PSC, Singapore
1964	1,122	10,595
1965	2,869	18,187
1966	1,147	14,625
1967	1,347	15,305

<sup>16</sup> Boris Blai, Jr., “How Effective is Your Personnel Program?”, *Personnel Journal*, XXX: 3 (July-August 1951), pp. 98-101.

<sup>17</sup> This table is reproduced from Quah, *op. cit.*, Table 3.9, p. 140.

Robert Presthus, in his research on the effectiveness of private hospitals argues that:

“Their prestige in the larger community has an immediate impact on their operational effectiveness. Community support, in effect, has legitimated the hospital’s role, and given it the patina of superiority that privately-fostered institutions often enjoy in our society.”<sup>18</sup>

It follows then that the *prestige* of the PSC among the general public and the bureaucrats is an important factor, affecting the effectiveness of the PSC. In other words, the prestige of the PSC is a measure of its effectiveness. The prestige of the PSC can be measured by asking the stratified random sample of bureaucrats outside the PSC, the members and staff of the PSC, university students, and the general public, the following question:

“What do you think of the PSC? Do you think the PSC is doing a poor, fair, good, or very good job?”<sup>19</sup>

Other measures of the PSC’s prestige are: (1) the number of complaints against the PSC in the local press, (2) the attitude of opposition party members toward the PSC (obtained by asking them the same question, or by making a content analysis of their speeches in parliament or elsewhere), and (3) the number of persons applying for jobs with the PSC. The PSC’s prestige is not high if there are many complaints against it in the newspapers’ or if there are fewer applicants for PSC jobs.

Finally, the *size of the country* is an important indicator of the effectiveness of the PSC. Generally, small countries have greater control and coordination over administration, and are able to create centralised organizations that can easily penetrate the society to mobilize resources from it, to regulate behaviour, and to distribute political goods more expediently.

### *Hypotheses to be Tested*

The hypotheses to be tested in this proposed research design are:

- (1) The faster the *speed of localization* of the civil service, the greater will be the level of effectiveness of the PSC.

<sup>18</sup> Robert Presthus, *Behavioral Approaches to Public Administration* (Alabama: University of Alabama Press, 1965), pp. 75-76.

<sup>19</sup> This question is adapted from one of the questions in S.J. Eldersveld, V. Jagannadham, and A.P. Barnabas, *The Citizen and the Administrator in a Developing Democracy* (Glenview, Ill., Scott, Foresman & Co., 1968), p. 160.

- (2) The greater the *reliance on achievement criteria* in recruitment and selection of personnel by the PSC, the greater will be the level of effectiveness of the PSC.
- (3) A PSC with *members* who have been *trained in interviewing techniques* is more effective than a PSC whose members have not been trained in such techniques.
- (4) The higher the *morale* of the members and staff of the PSC, the greater will be its effectiveness.
- (5) The greater the *stability of the staff work force* of the PSC, the greater will be its effectiveness.
- (6) The greater the volume of work of the PSC, the greater will be its effectiveness.
- (7) The higher the *prestige* of the PSC, the higher is its level of effectiveness.
- (8) The smaller the *size of the country*, the more effective will be the PSC.

What has been suggested above are merely tentative indicators for measuring the effectiveness of the PSCs in those Afro-asian states that are former British colonies. These indicators are tentative because only actual testing of the eight hypotheses listed above will show whether they are useful indicators or not. Moreover, the above catalogue of indicators is not exhaustive and needs to be expanded by the inclusion of other measures of effectiveness which have not been considered here.

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## PLANNING FOR COMPREHENSIVE DEVELOPMENT IN A REGION: SOME EXAMPLES FROM JAPAN

*K.M. Raipuria*

IT goes without saying that the fruits of development must be equally shared by as many parts of a country as possible just as the benefits of growth should reach the largest part of a nation's population.

Nations in general are, therefore, becoming increasingly aware of this obligation. In fact, in developed countries like Japan, balanced regional<sup>1</sup> development has become an imperative of growth strategy in view of the problems posed by over congestion in the main metropolises of the country. In the developing countries as well, special authorities have been created for 'balanced regional development', such as in the Philippines, Thailand and Malaysia. In India too, this is one of the main objectives of the current plan. Increasing awareness of this problem can be witnessed in other emerging countries of Asia and the Far East.

### THE PROBLEM

The objective stated as 'balanced regional development' is generally understood as equalising development among the regions, in terms of per capita income and industrial growth. This ultimately means: (i) dispersing growth from the developed to the lagging regions and/or (ii) bringing about growth in them through state intervention in the form of controls, investment, coordination, incentives, etc. In fact, a situation of complete balance in the development of all regions can never be reached. It may, however, mean reducing imbalances—thus tending asymptotically towards balanced development.

The contention of this paper is that in the process it is likely that the need to improve the relationship between man and his environment and to optimise (doing the best) the use of given resources in the local

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<sup>1</sup> 'Region' may refer to any sub-national territory for the purpose of the paper.



context, and provide a high level of work opportunities may be generally ignored. These objectives should actually serve as the guide in formulation of regional development strategy. The growth in aggregate and per capita income is a necessary condition to maximise the welfare of the society. However, conditions have to be created for allround development resulting in integrated growth which is viable over a long period. The living indicators can always be evolved according to the culture, preferences and resource endowment of the society.

The problem is that proper theory in regard to *comprehensive regional development planning (CRDP)* is yet to develop, in the sense that there are no generally agreed and stated principles based on tested hypotheses. This is because the need seems to have preceded the thinking and model-building on this subject and remains one of the serious problems in the context of planning at regional level.

#### CRDP MODELS

However, there are some practical models which provide some examples of CRDP, illustrating the implications and pointing to vital issues of plan formulation and implementation. The present paper aims at discussing the CRDP as recently adopted, in Japan. The motivation is to identify the main elements, approach and planning tools which may have some paradigmatic value in regional planning for the emerging countries.

This was felt important in view of the widening gulf between the economic, social and physical planning observed in various planning models adopted in the Third World countries so far. As a result, we see most of the plans aiming at economic variables in given degrees providing objectives and certain assumptions. This is followed by a system of specific targets and rates of growth. This has its own uses. The difficulty arises because population and land are hardly paid the requisite attention as allocable resources. The objectives and targets are inadequately backed by the programmes and projects. If certain projects form part of the plan, the inter-dependence of various factors involved in the projects is not well-known. The gap between formulation and implementation persists. Nothing more than lip-service is shown to the socio-cultural parameters. In fact, the present compartmentalisation of sciences has made it convenient to do so and thus we see the general absence of an integrated approach to planning for development.

## MAIN ELEMENTS OF CRDP

The emphasis we noted<sup>2</sup> in Japan's case is on the 'living indicators'<sup>3</sup> and projects of comprehensive nature, as real elements of development planning. That way, CRDP can be understood, as planning of inter-play effects of several such projects capable of bringing about structural changes in the physical, economic as well as social conditions of the people of the region, in the context of national and regional objectives. Project in this context may mean any investment effort bringing a new 'body' in the region's space for the attainment of certain development objectives, as part of a particular programme. Thus, a dam on the river, a new school, a T.V. Station, a savings bank, a clinic, a slum clearance plan, are all examples of a project.

What is remarkable is the close correspondence between the goal, objectives, strategy (policies and measures), programmes and projects leading to planning consistency. This approach implies vertical and horizontal coordination among various sectoral departments at all levels of government. Further, for execution of the projects, administrative and legislative planning form an integral part of the regional plan and public participation is invited at various stages of planning. Because, the real determinants of the success of planning are the extent to which (i) the society's needs and aspirations are translated into the plan objectives, (ii) social propensity to change and adopt the new ways of activities is understood by the planners, and (iii) the degree to which public is involved in the plan implementation.

Moreover, CRDP cuts across many disciplines and this implies team-work of professionals of various disciplines for the common purpose of development planning.

The case study of prefectural planning in Japan suggests that CRDP implies mainly the following:

- (1) comprehensive development as objective of planning,

<sup>2</sup> From a case study of the current plan of the Aichi Prefecture (1970-85), *Regional Development and Planning Implementation : A Case Study of the Aichi Prefecture of Chubu Region of Japan (unpublished)*. The study was a product of team work which the author had coordinated during his stay at the United Nations Centre for Regional Development, Nagoya, Japan, during February-June, 1972.

<sup>3</sup> The New Comprehensive National Development Plan (1970-85) of Japan employs a system of such indicators. The system is divided under two sectors; behavioural index and environmental index in which the former includes nutrition, health, education, housing, safety and social security as components while the latter includes environmental sanitation, social welfare, free time, security and safety, communication, transport, etc. The indicators have been worked out from the geometrical mean of the relative number of the components taking values of 1965 as 100.

- (2) correspondence between objectives and projects,
- (3) action planning for after-care of the plan,
- (4) multi-level planning,
- (5) team-work by professionals of various disciplines, and
- (6) public participation in planning.

These may be considered as the main elements of CRDP and are discussed below seriatim with the examples from Japan.

### *Comprehensive Development*

Region is a base where actually planning and development take place. That is, at this level, the planners must translate peoples' needs and aspirations into the objectives of the plan and relate the growth and development through the programmes and projects to the resource characteristics and potential of the region. Development, therefore, cannot strictly be defined (though it may be indicated) in terms of growth of per capita incomes or some other aggregates alone. It should actually be understood in terms of removing the basic obstacles which inhibit the full utilisation of human and material potential of the region. Investment allocation and priority should be considered in the light of the *intensity of these obstacles*, such as illiteracy, ill-health, disparities of income and wealth, inadequate transport and communication, absence of institutional and organisational build-up and above all the outdated modes of production. Growth should also enable the society to develop and be viable over a long period. Explicitly, this implies a development pattern which protects the region's basic culture and environment. If the values developed during the colonial rule in a country (as in case of many developing countries), obstruct development, 'social change' should also be one of the objectives of the development plan.

It is promised that such an approach to development integrating economic, social and several other aspects of society, facilitates the process of achieving higher per capita income instead of anything else. Every society suffers from certain basic inhibitions of development and has peculiar characteristics which must be made adaptable to the development process and form part of the planning *lest* the gap between a plan and what is actually achieved widens resulting in the 'growth paradoxes', *viz.*, rising inequalities in the society, industrial dualism of economy, etc.

Japan's example illustrates that: (i) "should any development process take place, there has to be ubiquitous motivation; in other words, there has to be a thought, a set of value judgements, 'incarnated' in a given society", and (ii) "a development process, cheap and expedient in the short run, could be very costly and even a destructive one in the long run".<sup>4</sup> They can be illustrated as follows from Japanese experience: (i) "the development process in Japan is fundamentally supported by a traditional motivation, namely, asceticism", and (ii) the development process in Japan has resulted in a very weak social welfare "of which the level of housing and environmental problems are the symbols. It is observed that the rate of transfer payment in the GNP of Japan is considerably lower than that in European countries".<sup>5</sup>

In the developing countries, the development experience so far hardly indicates consideration of an integrated approach. In most of these countries, planning has rather been used as an instrument of running the 'GNP race' aping the West. The following are said<sup>6</sup> to be some of the fundamental difficulties:

- (i) "lack of sufficient knowledge of the nature of the interrelationships, for example, between education and other aspects of development,
- (ii) failure to make full use of what was already known about the interrelationships, and
- (iii) excessive reliance on the economic growth rate as single or overriding criterion of development."

Actually, it makes a vicious circle, in the sense that there is absence of an integrated approach to development due to these difficulties, while they sustain because the significance of integrating, social, economic as well as physical aspects of development in planning is rarely realised.

CRDP has an important place in preventing a society from such a vicious circle. CRDP as adopted in Japan illustrates this and its 'how' is discussed under the following points.

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<sup>4</sup> Haruo Nagamine, *Evaluation of the Progress in Integrated Development*, paper submitted to the meeting of experts group on Social Development at ECAFE, United Nations, Bangkok, 30 November—5 December 1970 (mimeo).

<sup>5</sup> *ibid.*

<sup>6</sup> See the Report of the Working Party on Social Development and Report of the Expert Group on Social Development, United Nations, N. Y. (1971 E/CN II/550), pp. 5-6.

### Planning Consistently

It is an imperative of planning at the regional level to be down to earth *realistic* and *consistent* in terms of defined goals and objectives corresponding strategy, programmes, projects and action plans, which together may be called as GOSPPA. This would involve two stages and five main steps in plan formulation. At the first stage, the planners may need to adopt goals and derive individual plan objectives from the given set of national goals and objectives. The second stage would lead to formulation of strategy and policy measures in support of the adopted goals and objectives besides formulating specific projects and action plans. The GOSPPA warrant such stages to be covered in this sequence.

The logic of the GOSPPA stems from the necessity to have a close correspondence between what the planners propose to achieve and how they intend to proceed. Absence of such agreement is likely to result in planning constraints, *viz.*, conflicting objectives, and inconsistent (disproportionate) strategy in the execution of various measures and programmes to achieve such objectives.

Such correlationship was observed in the case of plan formulation process in the Aichi Prefecture of Japan which is shown on the demonstration plane in the *Table*. The system is flexible to the extent that the same strategy can be used to achieve some other goal as well, that is, if one method is relevant to objective A, it is equally relevant to objective B.

In the above, derivation of regional objectives from the national objectives, as observed in the Aichi's case, is shown below:

<i>National Objectives</i>	<i>Regional Objectives</i>
1. Creation of affluent environment	1. Better living environment.
2. Solving pending regional problems of over congestion over sparseness and regional differentials	2. Development of personality and human faculty.
	3. Development of infrastructure
	4. Promotion of industries.

As a next step, spatial and non-spatial implications were derived from the national objectives. While territorial planning and creation of transport network for objectives 3 and 4 have some of the *spatial* implications, social security and welfare, education facility, preservation of culture and development of recreation for the objectives 1 and 2

TABLE: A PLANNING SYSTEM

(Shooting the Arrow)

Numbers are for example and subject to variation

No.	Goal (National)	Method for	No.	Programmes	Method for
I-NON SPATIAL					
*	—		P1	1	List
OBJECTIVES			P2	2	Project
A	*		P3	2	Corres-
B	*		P4	2	ponding
C	*		P5	3	to P's
D	*		P6	4	
ABCD CORRESPONDING NATIONAL OBJECTIVES			P7	4	
			P8	5	
			P9	6	
II-SPATIAL					
STRATEGY: POLICY MEASURES			S1 Transport & Communication	7	List Projects
1	A		S2 Water	8	corres-
2	A		S3 Power	9	ponding
3	B				S1, S2 & S3
4	B		III-CORE PROGRAMMES		
5	B,C		PI Primary Industry	10	
6	C		SI Secondary "	10	
7	C		TI Tertiary "	11	
8	C		INDIVIDUAL PROGRAMMES (PI)		
9	C		a	1	List
10	D		b	1	Projects
(The correspondence is flexible and may depend upon the priority of objectives and importance of policy measures)			.	2	Corres-
			.	.	ponding
			.	.	a, b,....
			.	.	
			.	.	
			.	.	
			Similar objectives and programmes for SI and TI		

\*Including education, health, social welfare, social security, cultural promotion, etc.

**TOWARDS 'GOSPPA'**  
at the Target )

<i>No.</i>	<i>Individual Programmes</i>	<i>Method for</i>	<i>No.</i>	<i>Action Plan for Programmes</i>	<i>Method for</i>
Rd	Road	S <sub>1</sub>	List	<b>I-NON SPATIAL</b>	
Rw	Railways	S <sub>1</sub>	Projects		
Pt	Port	S <sub>1</sub>	Corresponding	i	1
Aw	Airways	S <sub>1</sub>	Rd, Rw, Pt, Aw	ii	2
Cm	Communication	S <sub>1</sub>	& Cm	iii	3
				.	.
				.	.
				.	.
				<b>II-SPATIAL</b>	
				i	Rd
				ii	Rw
				iii	Pt
				iv	Aw
				<b>III-CORE</b>	
				a	PI
				b	SI
				c	TI
				.	
				.	

have some of the *non-spatial* implications of the primary goal of "formation of comfortable and decent place of living and production".<sup>7</sup>

In the same context should be noted the two basic premises of the plan, (i) location in the national land and part of the Chubu region<sup>8</sup>, and (ii) increasing urbanization. Further, (i) man (human aspect), and (ii) land (land-use plan) were considered as two prerequisites of the plan-strategy. In fact, every thing in the plan percolated from these premises and prerequisites.

This system<sup>9</sup> is nothing but an approach to plan formulation when the objectives aim at comprehensive programme and projects. Secondly, it indicates in the rows, the home-work to be done with the help of the professionals of various disciplines.

The system as shown in the Table assumes that (i) all the objectives are a pointer to the same goal; their number determined by the nature of the goal, and (ii) policies and measures may overlap each other corresponding to the objectives.

Thus the national context is never lost sight of either in the formulation of objectives, enunciating policies or adopting measures to execute programmes and projects. In principle, this should invariably be guided by the overall national parameters.<sup>10</sup>

### *Action Planning for 'After Care'*

There is sufficient evidence from the planning experience of the Third World countries to show that though their plans reflected a great deal of intellectual effort, implementation gaps were conspicuous by way of tardy economic growth, development paradoxes and structural imbalances in their economies. Given political commitment and social propensity to develop, it is increasingly realised that planning for administrative reforms, institutional build-up, organisational adjustments and coordination and creation of feed-back mechanism, as for progress

<sup>7</sup> 'The Third Aichi Prefecture Plan' (in Japanese), Aichi Prefecture, Nagoya, Japan, 1969.

<sup>8</sup> A planning region, consisting of nine prefectures. The Aichi is one of them having the headquarters of the planning administration.

<sup>9</sup> A similar system of methods for regional planning on 'theoretical plane' was developed by Losch, *The Economics of Location*, 1957, p. 347, Table 17.

<sup>10</sup> See, 'Guidelines for Project Evaluation', UNIDO, authored by P. Das Gupta, A. K. Sen and S. Marglin (Vienna, 1972). Chapter 12 discusses this aspect. Broadly, they have been put as (i) 'weights' (that directly reflect political value judgements such as social discount rate, distribution function, etc.), and (ii) 'shadow prices' (that of investment, labour, foreign exchange, etc.).



reporting should form an integral part of the planning process. This is extremely important in CRDP since planning at the regional level is more an exercise in taking action rather than recommending or guiding as at the central level. This must correspond to the programmes and projects included in the plan, *viz.*, orientation and training of personnel, extension and demonstration of new techniques of cultivation, proper devolution and deconcentration of financial and administrative powers of different departments and at various levels of government, inviting public participation, etc.

Another area of action planning is designing a suitable system of incentives, regulations, laws and controls to implement the plan strategy. This assumes particular importance in the mixed economies since the private corporate sector in promoting production activities and the household sector in the desirable consumption and saving activities must be made co-partners in the planning process.

In the Japanese experience, the prefectural planning includes:

- (i) Consolidation of systematic circumstances for the implementation of the plan; and
- (ii) "after care" to promote plan schemes and method of administration and study of the post-planning problems.

In the Aichi prefecture, the three following special organs of the planning apparatus need mention:

- (a) the Development Commission, headed by the Governor to review the progress;
- (b) the Project Coordination Committee, chaired by the Vice-Governor, consisting of the department heads to promote new projects; and
- (c) the Committee on Land-Use Coordination to take care of projects (with land more than 20 hectares).

Moreover, apart from Acts enacted at the Central level in regard to development of regions and designation of industrial cities, certain laws in regard to CRDP were passed to take care of the planning requirements such as City Planning Law and Law for Local Autonomy.

The underlying hypotheses can be stated as follows:

- (i) development is accelerated if (a) circumstances affecting administration and people are development and planning-oriented, and (b) suitable institutional and organisational build-up follows the formulation of plan;

- (ii) the latter is facilitated if action planning for 'after care' of the plan is an integral part of the plan; and
- (iii) a plan becomes a creative action when 'after care' (implying watch over implementation and review of postplanning problems) is assigned to an adequately empowered state agency.

### *Multi-level Planning (MLP) Relations*

Most of the developing countries are "already suffering from apoplexy at the centre and anaemia at the edges."<sup>11</sup> It can be stated that multi-level planning relations, particularly suitable to CRDP, are yet to be developed in these countries. However, the traditions of effective planning and implied coordination and cooperation with the upper and lower levels of government as well as among the sectoral departments vertically and horizontally must be considered as a *sine qua non* for sound plan formulation and implementation, when regional planning becomes part of the national planning. These traditions develop to the *extent* planning and administration are shared by various levels of government and the *degree* to which motivation and coherence exist in the planning process.

What is emphasised is that the MLP relations suitable to CRDP do not necessarily warrant decentralising powers towards making the units separate entities. In fact, "a region cannot be thought of as an entity to be developed by itself and independently of the country as a whole. On the contrary, a region must be developed within the context and for the greater progress of the national economy. This results from the need for coherence in local plans and in the procedure for choosing the most effective set of programmes. In realistic terms, regional development must be a matter of *deconcentration* and not of *decentralisation*"<sup>12</sup> (emphasis added).

In our view, such deconcentration would mean:

- (i) widening the 'space' of planning, and
- (ii) increasing the strength of the local governments, field agencies and organisations towards more devolution of planning process.

<sup>11</sup> Lloyd Rodwin, in W. Isard and H. H. Cumberland (eds.), *Regional Economic Planning Techniques of Analysis for Less Developed Areas*, (1960), p. 232.

<sup>12</sup> J. R. Boudeville in W. Isard and H. H. Cumberland, *op. cit.*, p. 397.

Basically, this is a question of fusing motivation at various levels of authority and does not necessarily imply sharing of traditional control or authority.

Japan's example suggests that such motivation can be created in several ways, *viz.*, by elaborating tasks and works in the National Plan for each region, designation of industrial cities towards creation of growth-centres in the prefectures and revision of local autonomy by law for the City-Town-Village governments. It is instructive to note that many of the local governments in Japan now have their own long-term plans. The common motives are said to be synthesis of administration or giving proper direction to administration, raising local revenue and public facilities by reinforcement of industries (primary, or secondary and tertiary), etc.<sup>13</sup>

The multi-level planning framework as in vogue in Japan is shown in the diagram. Among the central, regional prefectural and local (City-Town-Village) levels, the second needs explanation. It has been observed<sup>14</sup> that the new integrated regions at intermediate level where the urban agglomerations (grown on the Pacific coast belt) have centered, evolved out of the demands of economic growth. The agglomerations are still growing and as a result urban *areas* are going beyond administrative boundaries. That made it necessary to create the regional level to take care of prefectural inter-connections and large projects of regional nature. Then inter-governmental commissions between the central ministries and prefectural governments have been created in the office of the Prime Minister to coordinate the planning activities in these *areas*. The *mechanism* of those commissions works through implementing large projects of regional character.

It is hypothesised that "the more backward the prefecture is, the more heavily it is dependent on the central government financially. Under such circumstances, comprehensive development planning has come to be regarded by local governments as an instrument for obtaining the central government's funds, especially those for public works".<sup>15</sup>

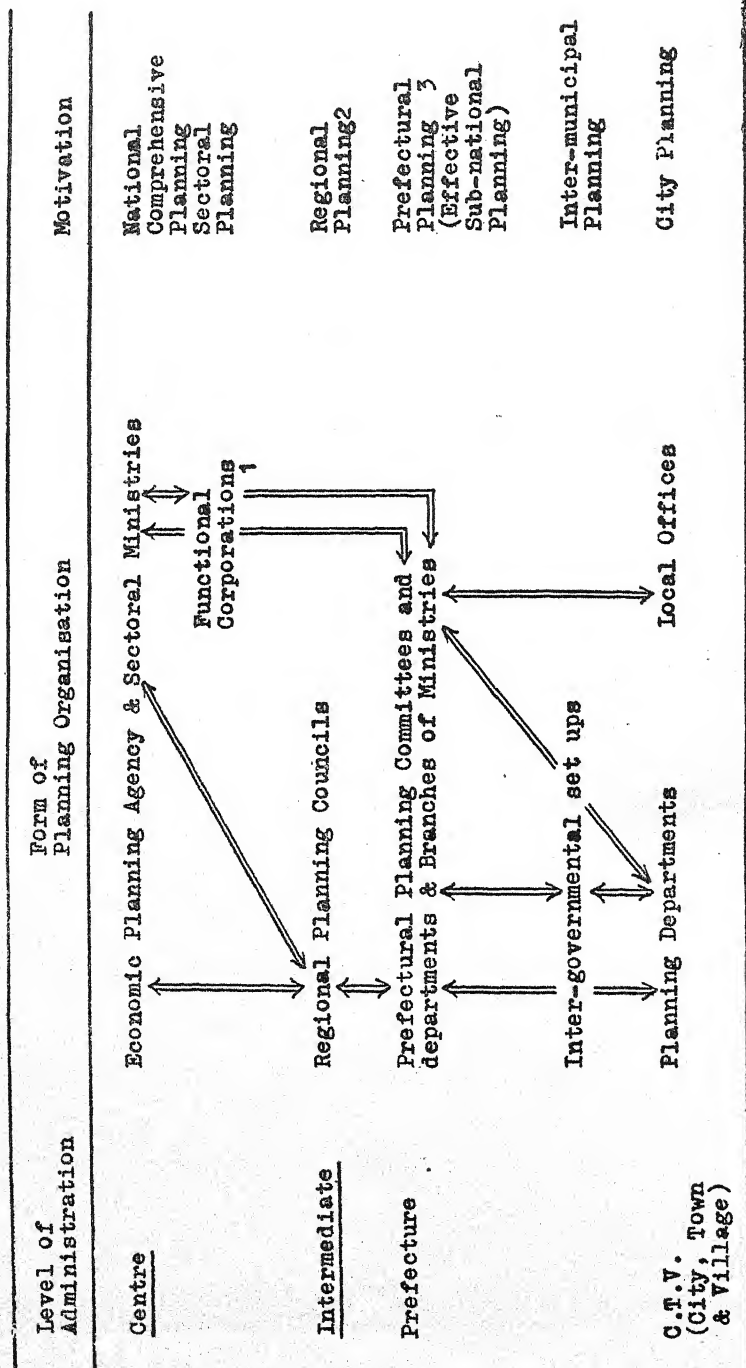
In fact, local level planning has been very much encouraged by the Planning Laws passed by the National Diet, *viz.*, (i) Urban Redevelopment Law (to facilitate land acquisition) and, (ii) New City Planning Law (to exercise land use control). Due to scarcity of land, actually the major part of planning effort in Japan is devoted to land control.

<sup>13</sup> Survey conducted by the Comprehensive Planning Centre, Tokyo, Japan on the situation of Long Range Plan Formulation in Local Government, 1971.

<sup>14</sup> Masahiko Honjo, 'Urban Planning Administration in Japan', in the *Report on the 3rd International Symposium on Regional Development*, September 16-18, 1963, Japan Centre for Area Development Research (JCADR), Tokyo, p. 216.

<sup>15</sup> *ibid.*

[DIAGRAM 1 MULTI-LEVEL PLANNING IN JAPAN



The arrows indicate working communication or feed-back mechanism.

<sup>1</sup> Such as Japan Housing Corporation. <sup>2</sup> There are seven regions in Japan, delineated for comprehensive Development Planning. <sup>3</sup> The number of prefectures in Japan totals to 48 at present.

Japan's case also illustrates the tradition of feed-back mechanism, due to which pluralistic planning "pursued at different phases and levels point eventually to a single direction" and "vertical sectoral plans are implemented territorially at the lowest level linked with horizontal relations".<sup>16</sup>

One basic point to encounter from Japan's example is that "although emphasis with regard to the strategy of development for the developing countries now seems to expand from national to international context, as shown in the two Prebisch Reports, yet the importance of efforts at lower levels remains nonetheless. It is at such levels, local, municipal, provincial or regional, depending on cases, where a new value judgement gets incarnated into effective social force for change".<sup>17</sup>

### *Meta-Disciplinary Approach*

It can be demonstrated that during the past two decades, there was a notable trend towards increase in national public expenditure and towards increasing use of fiscal, monetary and exchange policies in planning. This had led to an enviable role of the economist among the social scientists, in the planning process. This was also due to the useful tool-kit the economists have been able to develop during the same period. Moreover, the national planning problems are aggregative and primarily of economic nature. Problems of regional planning are directly related to the land-environment and people—their socio-economic activities.

If the observation about Japan's system of multi-level planning is any guide, it can be hypothesised that while, at the national level, the economist (E) has greater participation in the planning process, at local level, it is the physical planner (P)<sup>18</sup> who has much to contribute in planning. With increase in emphasis on social welfare and need for social change in planning for development, the social planner (S) has almost an equal role to play at all levels. This is shown in the box diagram on next page.<sup>19</sup>

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<sup>16</sup> See M. Honjo, 'Study of Regional and Urban Development in Japan and the JCADR', in the *Report on the U. S. Japan Conference on Regional Development*, January 1971, Honolulu, (Hawaii), JCADR, Tokyo, Japan, 1971, p. 15.

<sup>17</sup> See footnote 4.

<sup>18</sup> By a physical planner we mean a city planner—architect, engineer, etc.

<sup>19</sup> Thanks to Mr. Suripto Kusumowinoto of Bali Planning Unit, Indonesia for illustration of this point.

DIAGRAM 2

<i>Level of Government</i>	<i>Role</i>
1. National	E+S+P
2. Regional (sub-national)	E+S+P
3. Local	E+S+P

NOTE: Size of the letters in the box diagram above, reflect upon the degree of contribution in planning.

The Diagram shows that at regional (sub-national) level, E, S and P have equal contribution in planning. This is indicated by the need for multi-disciplinary approach in regional planning. Actually increase in emphasis on comprehensive planning means emphasis on a planner, that is ESPA where A means administrator and the rest as defined above. It is suggested that this would bring advantageous shift in planning process towards 'how' of planning,<sup>20</sup> that is, 'achievement style', in place of mere 'what' and 'why' type analysis of various phenomena with which the economists are generally concerned. This, however, does not mean that expert advice of the specialists cannot be invited as needed at some stage of planning. It is a controversial point. But, emphasis on team-work by various specialists is already notable and the 'plague' of economists<sup>21</sup> very much felt in planning especially in the developing countries.

There seems to be almost a consensus at least in principle among various specialists engaged in planning that they share a common concern and may use a common tool-kit for analysis.

Alonso has emphasised the need for a 'Meta-disciplinary Expert', who "is a man whose sustained and substantive and technical concern with the concrete issues has made him particularly good at dealing with them," with the argument that "the vast majority of planning is a professional exercise, in which the task is not to do something *new* but to do something *well*,"<sup>22</sup> (emphasis added).

<sup>20</sup> Dr. Ralph Diaz of the United Nations Centre for Regional Development, Nagoya, Japan, made this point.

<sup>21</sup> See among others, Michael, M. Postan, 'The Plague of Economist' *Encounter*, January 1968.

<sup>22</sup> W. Alonso, 'Beyond the Interdisciplinary Approach to Planning' in *Report on the 2nd International Symposium on Regional Development*, September 1968, JCADR, Tokyo, Japan, 1969. See for an interesting discussion on the point, pp. 133-49, especially diagram on p. 144.

Japan's example of CRDP, is instructive at this point, in that the demands of the job rather than professional pursuance remain the major concern of the various specialists. This is due mainly to the emphasis on projects as real elements of CRDP. One can observe a science and art of planning, developing in this process, characterised by a commonality of objective function, the art in the formulation of strategy programme and projects and the science in the various techniques and underlying hypotheses (social, economic and spatial) formulated, tested and applied in planning.

### *Use of Models*

Planning models provide a framework of stipulated variables to be influenced and others of parametric nature, giving the goal and objectives and to that extent they improve the planners' understanding of the crucial factors determining various economic activities. In CRDP, their role is also important inasmuch as they help in judging the impact of alternative regional growth patterns and policy measures in relation to the development of the regional economy in the national context.<sup>23</sup> Particularly, the use of regional income-accounting and input-output models needs no emphasis in understanding the basic structure of the region's economy and a region's inter-connections with the rest of the nation's economy.<sup>24</sup>

However, there are notable difficulties in this regard in the developing countries in the face of lack of adequate and sufficient data and qualified personnel. Actually, information costs are enormously high and the most informed persons are to be relied upon and the method of learning by doing is adopted very often in planning, programming and formulation of projects.

Moreover, it has been observed that "the mathematical planning models that at an earlier time held out much promise appear now to suffer from defects that will take a long time to remedy".<sup>25</sup> For example, "no political constraints tie the distribution of incomes to the

<sup>23</sup> See (i) 'A Study of Japan's Nation-wide Regional Econometric Model' (in Japanese) Economic Research Institute, Economic Planning Agency, Government of Japan, Research series No. 18, 1967 and (ii) A. Shimokobe and N. Nishifuji *The Planning and Policies of Regional Development—the Methodology in Japan* in 'Economic Policy and Marro Economic Planning', pp. 262-67. They have used the model-building in judging the impact of 'network' strategy *vis-a-vis* growth-centre strategy on the regional growth in Japan.

<sup>24</sup> See in case of Japan, *inter alia* (i) Inter-regional Input-Output Table for the Kinki Area and the Rest of Japan by Kansai Economic Foundation, Osaka, 1958, and (ii) the Inter-Regional Input-Output Table of Japan by Ministry of International Trade and Industry, Japan 1970.

<sup>25</sup> Guidelines on Project Evaluation (UNIDO), *op.cit.*, p. 132.



production decisions that planning models focus".<sup>26</sup> These limitations must be borne in mind, lest the use of models makes the planners oblivious of the real elements of development and planning.

### *Public Participation*

To plan and administer development is in a way synonymous with projecting the future and facing change, that is breaking the *status quo*. Therefore, the people who are going to be affected by such change must consent, put faith and participate in the whole planning process. In CRDP, it is pointedly significant because of socio-economic and stated dimensions of planning. What needs to be discussed is the set of determinants and ways of public participation.

In our view, public participation and involvement in the planning process can be invited to the extent the rapport between people at large and administration is appropriately defined in the following terms:

- (i) communication framework *which* should have a two-way mechanism;
- (ii) the nature of the set of government rules, procedures *which* should be oriented towards public convenience;
- (iii) public utilities *which* should at least cater to the basic needs of the people's daily life;
- (iv) management of local government *which* should be democratic and participatory; and
- (v) planning framework *which* should take into account people's requirements and translate them into plan programmes, report back the progress and exchange 'felt' difficulties with people.

In the above, the 'structure' of the people is also important. When the society is heterogeneous, there can be identified some functional groups which can actively be involved in planning such as: (a) scholars, businessmen, land-owners, labour-unions, local leaders among people, and (b) voluntary associations of varied type.

In fact, the pressure groups add another dimension in the above context. They emerge, sprawl and conflict for authority and maximise personal benefit from the development spillovers. However, their energies have to be channelled in the right direction. Basically, it is a question of right leadership in administration and approach to human

<sup>26</sup> Guidelines on Project Evaluation (UNIDO), *op.cit.*, p. 132.



relations and allocation of the tasks and benefits to genuine pressure groups. Administration thus has a role of 'input' in maximizing output from such groups.

As for the methods of involving people in planning, Japan's experience suggests that the functional groups and the genuine pressure groups should get representation in the planning agency. Of the fifty members of the top Planning Council of the Aichi Prefecture, there are representatives of Assembly (15), executing organisations (11), scholars (9), businessmen (6), labour classes (4), mayors (3), and youth and women's associations (2). Secondly, people at large should be informed of the progress and difficulties of plan implementation through periodical reports on the progress of the plan. A 'rolling plan' as part of the long-term plan and White Paper as annual report have been adopted in the Aichi Prefecture as tools of flexibility and public participation in planning. According to the regional planners 'a rolling plan' may be considered as a "progressive system" that could provide the necessary after-service of the plan. The White Paper is published by the Implementation Promotion Committee to report the progress of the plan and problems thereof in order to invite and incorporate peoples' views in the plan.

#### CONCLUDING REMARKS

In view of the limited aim of the paper and the general nature of the subject, to identify some approach and tools of CRDP, many complex and important issues have been left without an in-depth enquiry and in fact many more can be encountered which remain untouched. They include the issues, *viz.*, (i) setting up of objectives according to culture, preferences and level of developments,<sup>27</sup> (ii) determining priorities in the plan according to the intensity of the obstacles which inhibit society's progress;<sup>28</sup> (iii) evolution of indicators to target and evaluate the progress of plan,<sup>29</sup> (iv) methods of resource mobilisation, etc. The whole area of project appraisal and location in the light of the national parameters and resource-constraints has also remained untouched.


<sup>27</sup> See for discussion (i) on culture and regional development, G. S. Duggar, 'Policies and Strategies for Regional Development', in the *Report on the 3rd International Symposium on Regional Development*, September 16-18, 1969, JCADR, Tokyo, (ii) on relating decentralization and culture, John K. Fairbank, *The New China and the American Connection*, *Foreign Affairs*, Vol. 51, No. 1, October 1972, and (iii) on evaluation of culture as parameter in development, H. Nagamine, *op. cit.*

<sup>28</sup> See Benjamin Higging, *Unified Approach to Development Analysis & Planning with Special Reference to Pahang Tenggars*. Paper prepared for the ECAFE Conference of Asian Economic Planners, 22 Nov.—1 Dec. 1971, Bangkok, Thailand (Mimeo) 25, p. 12.

<sup>29</sup> See footnote 6.

But Japan's example may not have much to offer in regard to the resource constraint because what is significant there is desirability of the project. Resources are somehow managed. As for project location, the Industrial Location Manual has been prepared by the Government pointing to the major guidelines towards determinants of industrial location. What is most instructive to note is that the national plan of Japan includes the concept of the future society, the major development formula and major tasks and concepts, for the delineated regions indicating the physical aspects of the plan in the local context. Thus, the regional planners are provided with determined tasks of major programmes and projects in their respective regions facilitating the regional planning in the national context.

It is hoped that the discussion on the identified elements of CRDP in this paper would lead to interest and further exchange of views on the subject. Essentially, this may be considered as an effort to contribute something towards the art and science of planning for comprehensive development in a region.



## FINANCIAL AND PERSONNEL ADMINISTRATION IN CANADA

*K. C. Gopalakrishnan*

**F**INANCIAL Administration has three general aspects; public finance, financial accountability and financial management within a department or agency.<sup>1</sup> The first function is concerned with the setting of fiscal and monetary policy, with the assessment and collection of taxes, with the custody of public funds, with public borrowing, etc. The fundamental principles of the second aspect, *i.e.*, financial responsibility or accountability in Government is that the Government, in a parliamentary democratic set-up:

- (1) should have no income which is not granted to it, or otherwise sanctioned by Parliament, and
- (2) The executive should make no expenditure except those approved by Parliament.

The third aspect of the financial management within a department or agency has three principal parts—budget administration, accounting and audit.

The agencies developed by British and other commonwealth countries like Canada and India, for executing the purposes referred to above, have been based and influenced by the four canons of the British Economist, Findlay Shirras, *viz.*

### *The Canon of Benefit*

Public expenditure should be incurred or so regulated on the various items so as to secure maximum benefit for the society as a whole.

### *The Canon of Economy*

Public expenditure should be incurred in such a manner as to minimise the waste of public money. As stated by Johnson A.W.

<sup>1</sup> Hodgson, J. S. *Public Administration*, McGraw Hill, New York, Toronto, 1969, p. 154.

(Secretary of the Treasury Board, Canada), "Efficiency is judged not in terms of the efficacy of policies in achieving their goals, nor in terms of the efficiency with which individual programmes are being administered, but rather in terms of the economies which are or may be effected in the use of manpower, the amount of space employed, the level of travelling expenses incurred and the rest."<sup>2</sup>

### *The Canon of Sanction*

No public expenditure should be incurred without proper authority.

### *The Canon of Surplus*

Public authorities must earn their living and pay their way like ordinary citizens. Balanced budgets must, as in private expenditure be the order of the day. This is being done by 'constraints' with 'the inputs' which are brought to administer the approved programmes—personnel, office accommodation, material and equipment, contracts for services, travel and other employee expenses and the rest.<sup>3</sup>

In the light of these canons of Shirras and taking into account the parliamentary democracy and constitutional set-up, Britain and the countries which follow the British procedure have created a centralised agency, viz., Treasury Board (in U.K. and Canada) and Ministry of Finance in India. By giving most of the vital functions of the financial administration to this agency, it was felt that it creates a unity of organisation, secures compliance with the will of the legislature and affords simplicity, promptness and regularity in functioning. The structure and working of this agency, however, differ from country to country. As stated by Norman Ward, "The Canadian system of control (which in its operation has been so unlike the British on which it is theoretically modelled that many apparently useful comparisons are in reality irrelevant) relies on a series of documents and practices, all of which have had to be developed starting from an initial acceptance of the principles involved and ending pragmatically with the invention of something satisfactory to Parliament."<sup>4</sup> Similarly, there are substantial differences between the structure and functions of the Treasury in U.K. and those of the Finance Ministry in India. These arise from the historical evolution of the administration in these countries.

<sup>2</sup> *Canadian Journal of Political Science*, Vol. IV, September 1971, No. 3, p. 348.

<sup>3</sup> *ibid.*, p. 347.

<sup>4</sup> Ward, Norman, *The Public Purse and A Study in Canadian Democracy*, University of Toronto Press, 1962, p. 6.

The purpose of this article is to broadly review and evaluate the structure and functions of Financial and Personnel Administration in Canada and the reforms made since 1967, in the light of The Glassco Commission's recommendations.

#### FINANCIAL AGENCIES IN CANADA

The Government of Canada has created three agencies of financial control.

- (1) Treasury Board for control of expenditure and management;
- (2) The Comptroller for pre-audit of expenditure; and
- (3) The Auditor-General, for post audit and report to Parliament.

#### *Treasury Board*

The Treasury Board was created by Parliament in 1867 to supervise all matters relating to finance, revenue and expenditure. The Treasury Board is a Cabinet Committee, consisting of four cabinet ministers which is to supervise all matters relating to finance, revenue and expenditure. However, in course of time it has become all powerful: "a Kafka's Castle, the apparent, if unknown source of authority, remote, mysterious all-powerful beyond comprehension in terms of both reason and judgement, and above all, beyond the reach, let alone the influence, of the ordinary mortals governed by it".<sup>5</sup> The Treasury Board has become all-powerful because of its two vital functions: resource allocation and policy coordination.

#### *The Treasury Board's Responsibilities*

The main functions of the Treasury Board as stated in Section 5 of The Financial Administration Act are two: (1) The control of the expenditure budget; and (2) Control of Management.

*The Control of the Expenditure Budget:* It is the duty of the Treasury Board to propose to cabinet, the allocation of funds as between the myriads of competing programmes and projects. The job is to propose an expenditure plan which at one and the same time represents an expression of the governments' policies and priorities and results in the optimum allocation of the taxpayers' money in terms of value received for each dollar spent.<sup>6</sup> Treasury control of expenditure is a necessary concomitant of parliamentary control but it is a continuous control operating before and after parliamentary approval of estimates. The Board as a coordinator of

<sup>5</sup> *Canadian Journal of Political Science*, op. cit., p. 346.

<sup>6</sup> *ibid.*, p. 347.

financial and economic policies has to resolve any conflict between departmental policies, assess the relative importance of competing policies in the national economy and effect such economies as are feasible in the estimates of expenditure before their presentation to the House. In the oft-quoted remarks of the Haldane Committee, "if he (the Chancellor) is to be held responsible for filling the reservoir and maintaining a certain depth of water in it, he must also be in a position to regulate the outflow".<sup>7</sup>

*Control of Management* : The Treasury Board is empowered to establish the administrative policies or regulations—the constraints in short—which are seen by the Ministers to be desirable in guiding or governing departments in the use of public funds which have been allocated to them. These constraints have to do with the 'inputs' only—personnel, office accommodation, material and equipment, arrangements for services, etc.<sup>8</sup>

The Treasury Board is headed by the secretary and two assistants and has the following sections:

(1) The Programme Analysis Section; (2) The Defence and Works Section; (3) The Personnel Policy Section; (4) The Administrative Regulations Section; (5) The Estimates Procedures Control and Administration Section; (6) The Pension and Social Insurance Section; (7) The Telephone Services Section. Of these the Programme Analysis Division, the Personnel Policy and Administrative Regulation Groups are mostly concerned with financial control and most involved in the day-to-day financial control of departmental affairs.<sup>9</sup>

### *Office of Comptroller of the Treasury*

It is the second organization whose primary responsibility is to enforce the financial decisions of the Parliament, the Executive and the Treasury Board. Its functions are governed under sections 15, 30 and 31 of the Financial Administration Act. The powers of maintaining the central accounts of the government, the preparation of annual public accounts and certain cash management functions have been delegated to this agency by the Minister of Finance. The Comptroller of the

<sup>7</sup> Ashok Chanda, *Indian Administration*, George, Allen & Unwin Ltd., London, 1960, p. 210.

<sup>8</sup> *Canadian Journal of Political Science*, *op. cit.*, p. 347.

<sup>9</sup> *The Royal Commission on Government Organization*, Queen Printers, Ottawa, Vol I, p. 132.

Treasury undertakes pre-audit which is a complete audit undertaken before payment is made and is associated with a power of disallowance or the right to withhold or to refuse payment.

### *Auditor-General*

The third agency created by the Government is the office of the Auditor General. Unlike the other two, the Auditor General is an officer of the Parliament and is responsible for conducting a post-audit of financial transactions and reports to Parliament. It is a test audit and is essentially a review and reporting function; he has no power of disallowance. His powers are governed under sections 67 and 70 of the Financial Administration Act.

### *Appraisal of the Working of These Three Agencies*

The Glassco Commission has reviewed the working of these three agencies in the light of four basic problems. First, does the management of departments have adequate authority to carry out its responsibilities? Second, is departmental management held accountable for performance? Third, does the Executive provide adequate directions to departments without imposing controls which detract from effective management? Finally, within those areas of responsibility assigned, is financial management effective?<sup>10</sup> The Commission came to the conclusion that:

- (a) Inadequate authority is given to departmental officers in the process of spending money. As a result, it is impossible to hold departments accountable for financial results.
- (b) Checks, counter-checks, delays and duplication abound in the expenditure process. A sampling of the Board Minutes indicates that decisions are required in about 16,000 submissions annually (about ten per working hour). "These vary from elaborate and far-reaching projects involving a sizable portion of Canada's economic resources, as in a new defence installation, to a request involving a few dollars for the purchase of sugar and tea for a reception at an Experimental Farm".<sup>11</sup> As regards the procedure of reviewing the estimates of expenditures of various departments, the Commission concluded that the present procedures in developing and reviewing the estimates are wasteful and inefficient. The form of the estimates does not permit intelligent criticism and

<sup>10</sup> *The Royal Commission on Government Organization*, op. cit., p. 141.

<sup>11</sup> *ibid.*, p. 102.



places the major emphasis on the nature of expenditure, rather than on real purpose, and the matters coming under serious review are the less important details of administrative judgement.<sup>12</sup>

- (c) Even within the areas where responsibility has been devolved by the Executive, departments have generally failed to delegate appropriate authority to lower levels of management either at Ottawa or in the field.<sup>13</sup>
- (d) Both the Treasury Board Staff and most departments now tend to ignore long-term planning except for capital projects. Too little consideration is given to the impact of new programmes on future operating costs.<sup>14</sup>
- (e) The Comptroller's power of commitment control over departmental expenditures and the maintenance of a record of all outstanding commitments have resulted in the duplication of records by many departments.<sup>15</sup>
- (f) The present procedure, despite duplication is not necessarily effective, for little responsibility is placed on the operating personnel initiating most expenditures.<sup>16</sup>

In the light of the these comments and criticism of Glassco Commission on the structure and working of the Financial Administration, the main issues that arose for consideration were:

(1) Can the Treasury Board retain its old functions and also become the central agency for economic policy? If not, how best to delegate some of its authority to other agencies?

(2) How to reduce the unproductive work of the Comptroller and how much power should be delegated to the Departments and the methods by which the Departments and agencies adopt modern management techniques and establish and maintain a proper system of internal audit? The Glassco Commission recommended that any reforms in the Financial Administration should broadly fall into two categories: (1) Those associated with the administration of departmental operations; and (2) those involved in the central direction and coordination of Governmental activities as a whole.<sup>17</sup>

<sup>12</sup> *The Royal Commission on Government Organization*, op. cit., p. 100.

<sup>13</sup> *ibid.*, p. 162.

<sup>14</sup> *ibid.*, p. 101.

<sup>15</sup> *ibid.*, p. 105.

<sup>16</sup> *ibid.*, p. 100.

<sup>17</sup> *ibid.*, p. 48.



*Treasury Board*

In 1966, the government of Canada, amended the Financial Administration Act and has completely overhauled the Treasury Board on the lines recommended by the Glassco Commission; section 3(2) created a President of The Treasury Board (previously Minister of Finance was the President). Section 4(3) created the legal machinery to build up a separate Treasury Board Staff. The main agencies created are Programmes Branch, Personnel Branch, and Administrative Improvement Branch. The Programme Branch is responsible for programme analysis in Government Departments as well as estimates and supply procedures. Section 7 of the Financial Act brought many changes in the Personnel Policy Branch. The complex problems of employer-employee relationship have been added to the Board's responsibilities as enumerated in section 7 of the Financial Act. Five divisions have been created: (1) Planning and Coordination Division; (2) Manpower Division; (3) Staff Relations Division; (4) Compensation and Conditions Division; and (5) Classification Division.

The most important and far-reaching development was in the creation of a new Branch, 'The Management Improvement Branch'. The main purpose of this Branch is to implement the Glassco Commission's recommendation that the Treasury Board should not usurp the direct management responsibilities which properly belong to Departments but should guide, advise and strengthen the departmental management.<sup>18</sup> This Branch has four broad divisions: (1) Management and Improvement Policy, (2) Contracts Division, (3) SIMPAC Division, and (4) Research Division. The third division—SIMPAC—System of Integrated, Management Planning and Control is an innovation in the Administration. The purpose of the division is very similar to those embracing planning, programming and budgeting systems (PPB). The introduction of PPB is mainly due to two major shifts in approach to public administration in the Government of Canada—a shift in attention from the smaller issues (administrative inputs) to the bigger ones (programme outputs) and the placing of responsibility for the evaluation of the effectiveness of programmes and the efficiency of the administration squarely on the shoulders of individual departments.<sup>19</sup>

The basic objectives of a PPB system are five:

- (1) To define departmental objectives clearly and to relate them to provincial needs and goals.

<sup>18</sup> Kernaghan, W. D. K. and Willms, A. M. (Eds.), *Public Administration in Canada, Selected Readings*, Second Edition, Methuen, Toronto, 1971, p. 202.

<sup>19</sup> *Cost and Management*, March–April 1971, p. 16.

- (2) To stimulate the in-depth analysis of all existing and proposed new programmes in terms of their costs and benefits;
- (3) to link the planning and budgeting process through the annual review of multi-year Plans;
- (4) to measure actual and planned performance; and
- (5) to provide a systematic way of integrating all of these elements in order to arrive at a more effective system for the allocation and management of resources.

In short, PPB is a financial planning device being introduced into a federal government, not as a substitute for the political process but to provide a broader basis for decision-making. Its objective is to reveal the implications of planned programme in their entirety and in relation to other programmes.<sup>20</sup>

The change of procedure and process in the budget preparation in the Treasury Board, before and after the introduction of PPB system is shown in the Annexures I and II.

Be that as it may and despite all that is said in favour of PPB, the Treasury Board has become more powerful though in a different garb, a more powerful Kafka's Castle, 'a sole repository of wisdom and sagacity'. There is consensus that there is a need, in a parliamentary democratic set-up for a central executive agency, 'a managerial arm of the executive' in the Government administrative organisation. The dispute, however, centres round the extent of power to be given to this agency. Will the Glassco Commission's recommendations and subsequent changes in the set-up of the Treasury Board make it a more responsive Treasury Board? The Treasury Board as a resource allocating and expenditure coordinating agency, and with policy role which is inherent in its functions must have adequate staff with expertise in various fields such as economics, scientific matters and social developments. But as observed by Prof. White "The Board Secretariat is neither organized nor staffed appropriately to perform a policy role effectively and never has been. The Treasury Board staff does not consist of professional economists, scientists, or experts in other fields nor does the Board have special groups who would perform a staff function and advise programme officers on the various implications of policies and programmes, whether they be economic, scientific, or social areas."<sup>21</sup> Secondly, can the Parliament as a guardian of the public purse

<sup>20</sup> *Cost and Management*, op. cit., p. 12.

<sup>21</sup> White, W. L. *Policy, Politics and the Treasury Board in Canadian Government*, Science Research Associates (Canada) Ltd., Don Mills, Ontario, 1970, p. 138.

effectively control the reconstituted Treasury Board? The Treasury Board as a group of Ministers has no direct responsibility to Parliament. Furthermore, the meaningful scrutiny of expenditure by the legislature has been made ineffectual by the failure of the executive to present government proposals concerning expenditure in the form of meaningful programmes in which objectives are identified and quantitatively justified.<sup>22</sup> Thirdly, whether the reconstituted Treasury Board with its Programme budgeting, objectivity in decision-making, etc., will be able to hinder or help the strong political element in the decision-making process inevitable in a parliamentary democracy, ultimately depends on who is effective, the bureaucrat, the Minister seeking kudos or on articulate and well-founded pressure-group. While the introduction of PPB and consequent changes in the Treasury Board are based on the traditional rational model of decision-making, incrementalism is the characteristic of tax and expenditure policies. It is politically expedient. "Rarely do human beings act to maximize all of their values; more often they act to satisfy particular demands . . . In most cases, modification of existing programme will satisfy particular demands and the major policy shifts required to maximize values are overlooked."<sup>23</sup> Therefore, to the extent that political considerations intervene, the remedy will have to be primarily political in character. This is a slippery field. All that one can say, in a parliamentary set-up, is "It can only be assumed that factual information or objective criteria, even though they may not be perfect, when presented to politicians cannot be completely ignored by them in favour of the pork-barrel approach to expenditure determination and political expediency."<sup>24</sup> The conclusion that emerges from the study is that in political science, especially in the art of government, rational comprehensive approach is neither feasible nor desirable and the most appropriate is marginal incremental values. In other words, the only question to be asked is whether the reforms recommended and adopted are better or more rational than the previous one. Prof. White, therefore, rightly concludes:

"The Glassco Commission's study and the Treasury Board have opened avenues for increased efficiency at all decision-making levels in Government. To the extent that a more objective attitude and rational decision-making process is produced, the possibilities for a more responsible political system will be enforced. Members of Government will be required to adopt broader perspectives in policy and expenditure matters, to view budgetary policies and

<sup>22</sup> White, W. L. *op cit.*, p. 149.

<sup>23</sup> Dye, R. Thomas, *Understanding Public Policy*, Prentice-Hall, Englewood Cliffs, New Jersey, 1972, pp. 31-32.

<sup>24</sup> White, W. L., *op. cit.*, p. 153.

programmes as they relate to the entire economy, to place emphasis on priorities in general policy relative to given limited resources and in this context attempt to weave parochial considerations.”<sup>25</sup>

#### PERSONNEL ADMINISTRATION

The Treasury Board ‘an inner cabinet on financial and administrative policy’, apart from maintaining the sound economic structure of the country, plays a significant and positive role on administration through its control over the civil service. In addition to the allocation of Government resources, the Board is also responsible for the establishment of personnel policy and supervision of personal relations, the establishment of administrative regulations and the promotion of improvements in administration practices. According to Mr. Johnson, the Secretary of the Treasury Board:

“It is the Treasury Board, which prescribes the personnel policies, including classification and pay of all grades in the public service. It is the Treasury Board Secretariat which bargains with employee unions on behalf of all departments and advises the Government in respect of such Central operations as the Public Service Superannuation Fund. It is the Treasury Board which attempts to give leadership to Departments in the development and use of such important and expensive inputs as computing and data processing equipment and which prescribes guidelines or regulations, as to the standard which ought to apply in respect of other inputs such as accommodation, travel, entertainment expenses and employee benefits such as parking. It is the Board which has determined what contract methods shall be used by Departments in acquiring services, equipment and capital structure and when materials and supplies should be acquired through central agencies.”<sup>26</sup>

However, under the Civil Service Act of 1918, a new body, the Civil Service Commission was created and entrusted with the powers of recruitment, selection, promotion, transfer and the classification of positions. The Treasury Board was left with those matters concerning personnel which requires approval of the Governor-in-Council and which include establishments and rates of compensation. The Financial Administration Act of 1951, which consolidated the responsibilities of the Treasury Board in personnel matters gave more powers to the Board—payment of compensation or rewards, reimbursement of travelling expenses, etc. (C 12 S 7).

<sup>25</sup> White, W. L. *op. cit.*

<sup>26</sup> *Canadian Journal of Political Science*, *op. cit.*, pp. 360-361.

The Glassco Commission which examined the role of the Civil Service Commission and the Treasury Board in this field, was very critical of the personnel management. The Commission particularly attacked the exemption of a large number of personnel from the provisions of the Civil Service Act, the proliferation of controls by these two agencies, inadequacy of manpower training and development, complex classification scheme with regard to salary schedules, etc. The Commission was particularly critical of the Civil Service Commission's operating role in personnel administration and the authority vested in this non-management agency to control many important personnel functions.

The Commission *inter alia* observed: While The Treasury Board and the Departments may properly be regarded as parts of the management structure, the Civil Service Commission—even though it exercises managerial authority—has no managerial responsibility. It cannot be held accountable for effective performance of any of the tasks of Government, since, it is, in fact, an independent watch-dog responsible directly to Parliament itself.... Even then the Treasury Board, which should be looked to by departments for broad policy guidance and coordination too often appear to departments as a body exercising a negative control rather than as a part of central management.... Therefore, there is a waste of human resources . . . the procedures are costly and time-consuming . . . personnel management in department is generally misdirected.<sup>27</sup>

The Commission has therefore recommended<sup>28</sup> that:

- (1) Departments and agencies should be given the requisite authority to manage their own personnel and be held accountable for efficient performance.
- (2) To facilitate creation of a unified public service, currently exempt agencies and staff should be brought under a Civil Service Act revised to confer on departments and agencies responsibility for personnel management. The Civil Service Commission should continue to provide a common recruiting service for the public service except where the Treasury Board decides that administrative convenience warrants direct recruiting by the department or agency.
- (3) The Treasury Board should be responsible to determine the extent of the service. A central Personnel Division should be

<sup>27</sup> *Royal Commission Report*, op. cit., pp. 254-255.

<sup>28</sup> *ibid.*, pp. 259-260, 265.

created under the Treasury Board . . . to assist the Board in framing policy and standards relating to personnel administration and in the appraisal of the application by Departments of such policies and standards.

- (4) A simplified schedule of approximately twenty-five pay ranges should be established for the public service, and departments be made responsible for classifying jobs and allocating employees to the appropriate pay range.

Taking into account these recommendations of the Glassco Commission and after a detailed examination of all the issues, the Government of Canada introduced sweeping legislative changes in 1967. Two new Acts and important amendments to Financial Administration Act came into force in 1967.

- (1) The Public Service Employment Act (replacing the Civil Service Act).
- (2) Amendments to the Financial Administration Act.
- (3) The Public Service Staff Relations Act.

The Public Service Employment Act, has established the Public Service Commission (and the civil service commission was abolished). This new agency has the exclusive jurisdiction (like its predecessor) in the recruitment, selection, promotion and transfer of employees. In addition, prevailing rate employees and ships' crews, previously exempt, were brought under the Act and provision was made to extend it by order-in-council to other parts of the service. Exclusive powers relating to classification, rates of pay and conditions of employment, etc., have been given to the Treasury Board. The Public Service Commission is also responsible for the operation of training programmes in cooperation with the Departments.

The amendments to the Financial Administration Act transferred responsibility for position classification to the Treasury Board which was previously administered by the Public Service Commission. The Personnel Policy Branch has been completely reorganised. The Branch has now seven divisions, each concerned with: (1) Planning and Coordination; (2) Manpower Utilization; (3) Classification; (4) Compensation and Conditions; (5) Staff Relations; (6) Pensions and Social Insurance; and (7) Communications.

The new Public Service Staff Relations Act included terms which made the new Public Service Staff Relations Board responsible for pay



research and for hearing grievances and disciplinary matters which were previously the subject of appeals to the Commission. The Act also has introduced collective bargaining rights to the public employees and the responsibility for administering collective bargaining is vested in the PSSR Board.

The basic law, according to the Civil Service Commission, governing the personnel administration in the federal service, should provide, for:

(a) Preservation of the merit system:

- (1) Every citizen should, in principle, be eligible for employment in the public service or in the words of United Nations Declaration of Human Rights "Everyone has the right of equal access to public service in his own country".
- (2) Selections must be based entirely upon suitability for the job, and
- (3) Those employed will be paid equitably on the basis of the work they do.<sup>29</sup> Exemptions of various enterprises from the provisions of Civil Service Act have led to inconsistencies in administrative authority and practice, to lack of coordination and uniformity, to anomalies in compensation, leave and other benefits, to confusion in the minds of the public and to qualifications of the merit principle for the service as a whole.

(b) Greater speed, flexibility and simplicity.

(c) Leadership and initiative in the introduction and development of sound and progressive administrative techniques.

(d) Clearer definition of the division of authority and responsibility between Departments and the Commission.<sup>30</sup>

To achieve the above objectives, the Commission has recommended that:

(1) There should be clear division of responsibility in personnel administration between the Commission and the Treasury Board.

(2) As the classification plan, centrally controlled is an essential ingredient of a sound merit system, the responsibility for classification should remain vested in the Commission.

<sup>29</sup> Hodgson, J. S. *op. cit.*, p. 189.

<sup>30</sup> Hodgetts, J. E. and Corbett, D. C. *Canadian Public Administration*, The Macmillan Co. of Canada Ltd., Toronto, 1960, p. 270.

(3) The detailed process of recruitment, selection, appointment and promotion, should be the responsibility of the Commission.

(4) The Commission should also be responsible for making recommendations to Government on the remuneration of all employees in the Civil Service.<sup>31</sup>

It will be seen from the above that for a sound personnel administration in Canada, (i) recruitment, selections, etc., (ii) classification of the positions, and (iii) fixation of salary and other allowances are essential and that an independent authority like the Commission should have the exclusive jurisdiction on all these three subjects.

The Royal Commission (Glassco Commission), however came to different conclusions. It was very critical of the Civil Service Commission's role in all these vital fields. The main theme of the Commission is "administrative convenience and effective utilization of a work force that number over 200,000 employees and continue to increase by about three per cent each year."<sup>32</sup> The commission had, therefore, no difficulty in coming to the conclusion "A common recruiting service will not be appropriate to all needs". . . . Recruitment and selection are obviously of such critical importance to management that they should be the prime responsibilities of the Departments who know their own needs.<sup>33</sup> As regards classification, the Royal Commission found that the positions under the Civil Service Act have been grouped in some 1827 grades, in 887 classes and in 84 different pay scales—(and that) the system used in the Civil Service as the large number of grades and classes clearly demonstrates, is too elaborate and complicated. Definitions of job duties and implied standards for differentiating between jobs are very detailed and appear to be aimed at a degree of precision that would be difficult to obtain and probably not of much practical use. As regards salary administration, the Commission concluded that 'salary administration is concerned with proper treatment of the individual as well as proper adjustment of jobs into a pay scale'. For the mutual benefit of managers and employees, salary increments should be linked to individual performance. Salary schedules need to be designed with this link in mind and salary administration should be guided by this objective. Such an approach to salary administration is decidedly rare in the public service today and the provisions of the Civil Service Act bear witness to a directly contrary philosophy.<sup>34</sup>

<sup>31</sup> Hodgetts, J. E. and Corbett D.C., *op. cit.*, p. 272.

<sup>32</sup> Kernaghan and Willms, *op. cit.*, p. 288.

<sup>33</sup> *Royal Commission Report, op. cit.*, p. 263.

<sup>34</sup> *ibid.*, pp. 292-293.



The Royal Commission has recommended:

- (i) Departments and agencies be given the requisite authority to manage their own personnel and be held accountable for efficient performance.
- (ii) Departments and agencies be empowered to recruit their own personnel above a proposed (say \$5,200) salary level.
- (iii) A simplified schedule of approximately twenty-five ranges be established for the public service and departments be made responsible for classifying jobs and allocating employees to the appropriate pay range.
- (iv) For senior and intermediate positions at least, salary treatment within the pay range be related to performance of the individual.

Most of the recommendations referred to above, have been incorporated in the three Acts passed by the Parliament in 1966 and came into force in March 1967. Under the Public Service Employment Act, the Public Service Commission has powers of recruitment, selection, promotion and transfer of employees in agencies which are subject to the Public Service Employment Act. Various exempted organizations have been brought under the provisions of the Act. The amendments to Financial Administration Act transferred responsibility 'for a position classification' to the Treasury Board. As a result, the Bureau of Classification Revision established by the Civil Service Commission in 1965 has been transferred to the Treasury Board and it is now designated as the Classification Division. A new Public Service Staff Relations Board has been created under the PSSR Act. The Board is responsible for pay research and for hearing grievances on disciplinary matters which were previously the subject of appeals to the Commission.

The remaining part of this article will be devoted to the discussion of the theoretical and practical problems of recruitment, classification and wage and salary determination within the context of Canada.

### *Recruitment and Selection*

Personnel policy is an integral part of the administrative system which itself is related to the social, economic and cultural situation in the country. The question of personnel policy has to be examined in the light of (i) the requirements of innate qualities, skills and personal attributes of individuals, (ii) the institutional setting for personnel, and the (iii) the socio-economic situation. In order to measure the qualities

and skills of the personnel, an objective technique is needed. This again depends on the institutional setting in the country. In Britain, India, New Zealand, etc., reliance is placed on general testing through competitive examination both written and oral; U.S.A. relies on the other hand, on the practical knowledge or skill of the applicant. Canada uses both these methods. However, as observed by Hodgson, "No one of them is a royal road to reliable recruitment".<sup>35</sup> The second point equally relevant is the decision whether to recruit all personnel at the lowest levels and fill all higher positions by promotion on the basis of merit or seniority or some kind of combination of both as is done in New Zealand and India or recruit as and when needed from wherever possible as in U.S.A. This again depends on (i) the vertical skill differentiation, functional differentiation or horizontal specialization available, and (ii) the degree of homogeneity of the employment market in each country. These are in turn linked with 'the Service Concept' and 'Position Concept' adopted in each country.

Another problem related to the recruitment policy is the position relating to socio-economic and linguistic minorities and veterans. For example, the Indian constitution prohibits discrimination and guarantees equal opportunities to all citizens. At the same time, the constitution has guaranteed special privileges relating to services, education, etc., to scheduled castes and tribes and Anglo-Indians. In Canada, preferential treatment is given to veterans. "In those departments and agencies to which the Civil Service Act applies, veterans... constitute a preferred category. When a ranked list of eligibles is set up for appointment to a particular position, all veterans who meet the minimum qualifications automatically go to the top of the list, regardless of merit."<sup>36</sup> As regards the French-speaking Canadians, the Royal Commission has recommended that the Federal Government adopt active measures to develop bilingual capacities among its employees on a selective basis and the Government intensify its efforts to attract and retain more of the highly qualified young people of French Canada capable of advancement to senior ranks".

The merit system of recruitment, whether by competitive examinations or other modes of selection, is grounded in the belief that all those persons possessing certain basic qualifications are prospective recruits for the public service. This to a large extent depends on the socio-economic conditions and the public attitude towards Governmental functions; for example, in U.S.A., "The potential reservoir of recruits has been seriously lowered by a society largely motivated by the

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<sup>35</sup> Hodgson, J. S. *op. cit.*, p. 192.

<sup>36</sup> Royal Commission Report, *op. cit.*, p. 267.

acquisitive spirit, in which a powerful Government has been regarded with a jaundiced eye."<sup>37</sup> In developing countries, like India, for example, Government Service enjoys a higher status and sometimes even commands higher emoluments.<sup>38</sup>

In Canada, the experience of the merit system through advertised competitive examinations has revealed that it is time-consuming and unwieldy and hinders the mobility and development of talented people.... The strong emphasis on current qualifications for the position under competition has made it difficult for management to consider long-term needs, such as the appointment of a person with less immediate ability but with greater potential.<sup>39</sup> Various schemes have been introduced to remedy the situation and to improve the recruitment procedures. The most important is the development of manpower inventory system called Data Stream. The main purpose of this system, initiated by the Public Service Commission, is to record in a systematic way the knowledge, experience, capabilities and interests of an organisational force. These manpower inventories can cover one department or many occupations and departments and will be updated periodically. The departments will be in a position to recruit people quickly and with more accuracy than in the previous system. The salient feature of this system—staffing by the manpower inventory and appraisal method "is not appointment without competition. In a sense, it is competition without advertisement. It is a new merit system which guarantees more effective and more complete adherence to the basic elements of the merit principle—opportunity to be considered and an objective assessment of qualifications."<sup>40</sup> To start with the Public Service Commission covered 63,000 employees in four Departments—the Executive, Scientific and Professional, Administrative and Foreign Service.

In addition to the development of manpower inventories, another step taken to improve the recruitment procedure is by delegation of staffing. A substantial amount of authority has been delegated directly to departments to recruit and select employees in occupational groups. The role of the Public Service Commission has been relegated to establishing policies standards, procedures and auditing, the exercise of delegation and also administering programme to select university and technological institute graduates.

<sup>37</sup> Stahl, O. Glenn, *Public Personnel Administration*, Fifth Edition, Harper & Row Publishers, New York, p. 54.

<sup>38</sup> Administrative Reforms Commission, Government of India, *Report of the Study Team on Personnel Administration*, 1967, p. 50.

<sup>39</sup> Kernaghan and Willms, *op. cit.*, p. 296.

<sup>40</sup> *ibid.*, p. 298.

### Classification

The effective recruitment policy, to a large extent depends on the well-defined job classification. Without proper classification of jobs, it may not be possible to know the vacancies in each department which in turn makes recruitment difficult and ineffective. Apart from settling salary scales, "In recruiting, it (the classification system) enables the management to state its needs accurately; in placement, it serves to state clearly the nature of the job being filled up; in the training programme, it helps the teacher to prescribe exactly what subject-matter must be taught and to what level of proficiency; in counselling, it helps in moving persons to jobs suited to their aptitudes and interests.... Indeed in large organisations a classification system is a key element of management".<sup>41</sup>

The development of a classification plan includes four basic steps.<sup>42</sup>

- (i) Analysing and recording the duties and other distinctive characteristics of the positions to be classified (job analysis and description).
- (ii) Grouping the positions into classes upon the basis of their similarities.
- (iii) Writing such standards or specifications for each class of positions...to serve as a guide in allocating individual positions to the class and in recruitment and examinations, and
- (iv) Installation by allocating individual positions to the classes thus described.

The first three relate to setting up of the plan and the fourth with the initial step in its administration. The nature of the classification, however, depends on the institutional set-up and the socio-economic background of each country. The nature, as discussed earlier, depends upon expertise as in U.K., India and New Zealand or upon the knowledge of special skills and technical knowledge as in U.S.A. In the former case, the classification will have broad categories and in the latter, it will have to be more detailed, since it tries to establish a triangular relationship between (i) duties and responsibilities, (ii) working conditions, and (iii) qualification requirements.

<sup>41</sup> Hodgson, *op. cit.*, pp. 195-196.

<sup>42</sup> Stahl, *op. cit.*, p. 153.

*Service Concept and Position Classification*

The concept of service (class) and position are basic to any classification plan. Under the service concept, groups are organized in services or quasi-services having many essential features of a service. The scheme presupposes that within a service, positions at the same level are analogous and any member of the service qualified to hold that grade or position can be posted. Therefore 'the service concept not only classified positions into different classes but attempts to group positions within a class which can be treated as a homogenous group and personnel for which can constitute a cadre of officers, each of whom can occupy any one of the positions'.<sup>43</sup> Under the Position Classification, on the other hand, the basis of personnel structure is the position "A position, as different from the incumbent of the position, is characterized by certain duties and responsibilities which call for the time and attention of some one individual....The duties and responsibilities of the individual holding the position are the characteristics of positions".<sup>44</sup> The Position Classification is defined in the Classification Act of 1949 (U.S.A).<sup>45</sup>

"It is the purpose of this Act to provide a plan for classification of positions and for rates of basic compensation whereby

- (1) In determining the rate of basic compensation which an officer or employee shall receive (A) the principle of equal pay for substantially equal work shall be followed, and (B) variations in rates of basic compensation paid to different officers and employees shall be in proportion to substantial differences in the difficulty, responsibility, and qualification requirements of the work performed and to the contributions of officers and employees to efficiency and economy in the service; and
- (2) Individual positions shall, in accordance with their duties, responsibilities, and qualification requirements, be so grouped and identified by classes and grades as defined in Section 301, and the various classes shall be so described in published standards, that the resulting position classification system can be used in all phases of personnel administration."

The chief advantages of the position classification are: (i) equal pay for equal work, and (ii) rational criterion for establishing uniform job terminology and for control of pay levels by equating whole classes

<sup>43</sup> Administrative Reforms Commission, *op. cit.*, p. 44.

<sup>44</sup> Stahl, *op. cit.*, p. 153.

<sup>45</sup> Cited in Administrative Reforms Commission, *op. cit.*, p. 153.

of positions with common salary ranges. Both the systems have, however, their own advantages and disadvantages; for example, in India which follows the service concept classification, it is felt, in the light of the working of All-India administrative system, modelled on the British Civil Service, that this system is the root of all the problems and the system has failed. In the United States, after more than 25 years of experimentation of Position Classification, the entire Foreign Service has been kept out of the Position Classification scheme. Both the Hoover Commission and the Task Force on Personnel and Civil Service in U.S.A. have come to the conclusion that a superior service should not be bound by position classification but be based on the career concept in which an individual carried with him his pay and status, no matter what position he occupied. The Royal Commission of Enquiry on the State Service in New Zealand came to the same conclusion. It may, however, be stated that both the systems are not water-tight compartments and that the question has to be tackled by each country keeping in view its own socio-economic-institutional set-up. As aptly stated by Professor Stahl, "If positions are materials of classification, the class service is the operating unit."

### *The Position in Canada*

Canada in this field followed the example of U.S.A. and entrusted the classification work to the Civil Service Commission. The classification system in Canada, however, follows the system in U.K., France, Germany, i.e., the service concept system. The classification plan followed by the 1919 Act provided a different grade structure and pay plan for every definable occupation. As a result, there were more than 22,000 classifications in 1929, 3,700 in 1946 and about 2,400 with about 320 different salary ranges in 1964.<sup>46</sup> The Royal Commission after examining the classification system came to the conclusion that "The system used in the civil service, as the larger number of grades and classes clearly demonstrates, is too elaborate and complicated. Definitions of job duties and implied standards for differentiating between jobs are very detailed and appear to be aimed at a degree of precision that would be difficult to attain and probably not of much practical use" and recommended that 'A simplified schedule of approximately twenty-five pay ranges be established for the public service and departments be made responsible for classifying jobs and allocating employees to the appropriate pay range and for senior and intermediate positions, at least, salary treatment within the pay range be related to the performance of the individual'.<sup>47</sup> As a result of the above recommendations, the

<sup>46</sup> Kernaghan and Willms, *op. cit.*, p. 302.

<sup>47</sup> *Royal Commission Report*, *op. cit.*, pp. 292-294.



Government of Canada, as stated earlier, introduced various reforms in this field. The amendments to Financial Administration Act transferred the responsibility for Position Classification to the Treasury Board from the Public Service Commission. The Personnel Policy Branch has been completely overhauled. The Branch has now seven divisions, each concerned with: (1) Planning and Coordination; (2) Manpower Utilization; (3) Classification; (4) Compensation and Conditions; (5) Staff Relations; (6) Pensions and Social Insurance; and (7) Communications.

Even before these changes, the Civil Service Commission in 1965 established the Bureau of Classification Revision with a view to overhaul the classification system. This Bureau has been, as stated earlier, transferred to the Treasury Board and is now called 'Classification Division'. The Bureau of Classification Revision approached the problem of grouping jobs at two levels:<sup>48</sup>

- (i) Occupational category—a broad series of divisions characterized by similarity of educational requirements and the need for common approaches in classification, pay and other conditions of employment.
- (ii) Occupational group—each one, a category segment composed of employees with similar skills performing similar kinds of work and wherever possible bearing a relationship to an identifiable labour market outside the service. On this basis, the Bureau has divided the structure of occupational categories and groups broadly into six—Executive, Scientific and Personnel, Administrative and Foreign Service, Technical, Administrative Support and Operational. Within these broad six categories, the Board has identified and defined 74 occupational groups. Since the major work has been done by the Bureau, the Treasury Board in line with the delegation of decision-making authority to the departments intends mainly to restrict its role to establish policy and standards and to limit its operating role in classification to a minimum.<sup>49</sup>

### *Salary and Wages*

The importance of pay in personnel administration needs no emphasis. The virtue of the classification system besides facilitating recruitment of the personnel, should help in the fixation of standard

<sup>48</sup> Kernaghan and Willms, *op. cit.*, p. 303.

<sup>49</sup> *ibid*, p. 304.

salary levels in the public service. This to a large extent depends on the classification system adopted by each Government. Under the position concept (as in U.S.A.) the basic pay ranges are synchronized with classes of positions. Under the service concept (as in U.K., India and New Zealand), pay ranges are based on attributes of the service of the individual. In achieving the fundamental principle of fixation 'equal pay for equal work', both systems have their own advantages and disadvantages but in practice a combination of both the systems have been evolved in various countries. For example, 'most compensation schedules geared to position classification provide room for pay advancement and adjustment on the basis of length and quality of performance. Many rank systems (service concept systems) are modified by providing rapid and temporary change in the individuals' rank because of change in the nature of the assignment as well as for brilliant performance.'<sup>50</sup>

While there is consensus that public pay policy should be grounded on two principles, *i.e.*, equal pay for equal work and 'comparable with those paid by private employees for similar work, there is no agreement on the settling of minimum wage levels in the public sector. This is because of the social factors involved. As aptly stated by the Second Pay Commission in India:

"The minimum wage or salary should not be determined merely on economic considerations but should satisfy also a social test—both because of its intrinsic validity and because of its bearing on efficiency . . . . Even above the minimum level, the Government should remunerate their employees fairly; for those who serve the state...are entitled to fair wages,'<sup>51</sup> Prof. Stahl, in the American context states:

"The state, charged with providing for the common welfare and with the establishing and maintaining desirable social conditions is under special obligation to its servants that private employers may and often do overlook . . . The chief restraint against unfairness must be self-imposed, on the ground that the Government should be a model employer."<sup>52</sup> However, if the personnel administration in Government has to be effective and efficient, competition with the private market is necessary not only to recruit talented men but also to retain them in the Government.

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<sup>50</sup> Stahl, *op. cit.*, p. 140.

<sup>51</sup> Administrative Reforms Commission, *op. cit.*, p. 140.

<sup>52</sup> Stahl, *op. cit.*, p. 174.



There are, however, two difficulties in basing a public wage policy primarily upon prevailing market rates:

(1) The practical difficulty of determining what the market rate is for any particular class of positions, and

(2) The fact that large groups of public servants have no comparable counterpart in private industry.<sup>53</sup>

In view of these difficulties and problems, the next question that arises is how the public wage policy is set. Broadly there are five ways of doing it<sup>54</sup>—(1) By law; (2) By the legislature in broad outline with specific details of salary determination being left to the management (e.g. U.S. Federal civil service); (3) By collective bargaining; (4) By local determination based on the locally prevailing rates; and (5) without any particular pattern.

The experience in various countries indicates that the second method is practical and efficient. The Administration is best fitted for evolving the classification and pay plans for the Government. Since both the classification and pay plans are interrelated, both should be entrusted to one agency in the Government (as in Canada). As stated by Stahl, "The relationships between the classification and compensation plans are so intimate that a single agency should administer both . . . . A well-constituted personnel authority should be in a position to see that salary administration contributes its share to the whole personnel programme, that salaries are promptly adjusted to changing economic and employment conditions, that inequities between related positions are eliminated . . . . Accordingly, the personnel agency is the proper one to administer both the classification and the compensation plan with the advice and assistance of the budget or fiscal policy."<sup>55</sup> The Glassco Commission which examined the role of the Civil Service Commission and The Treasury Board in this field was very critical of the personnel management, especially the Commission's operating role in personnel administration and the authority vested in this non-management agency to control many important personnel functions. The Commission *inter alia* observed.

"While the Treasury Board and the Departments may properly be regarded as parts of the management structure, the Civil Service

<sup>53</sup> Stahl, *op. cit.*, p. 172.

<sup>54</sup> Hodgson, *op. cit.*, p. 206.

<sup>55</sup> Stahl, *op. cit.*, p. 178.

Commission even though it exercises managerial authority has no managerial responsibility. It cannot be held accountable for effective performance of any of the tasks of Government.”<sup>56</sup>

Both the Civil Service Commission and the Treasury Board now participate in decisions on salary levels. Because this is essentially a managerial responsibility, it should in future devolve solely upon the Treasury Board advised by its staff. Nevertheless, the Pay Research Bureau should remain with the Civil Service Commission for it has a service role of some technical difficulty which is more likely to be most efficiently performed by a group in position to be objective and independent. As regards pay scales, the Commission recommended, as stated earlier, that a simplified schedule of approximately twentyfive pay ranges be established for the public service and departments be made responsible for classification jobs and allocating employees to the appropriate pay range. The Government have accepted the recommendations and have transferred the exclusive powers relating to classification, rates of pay and conditions of employment, etc., to the Treasury Board (*vide* The Public Service Employment Act 1967). The Government went further and transferred the Bureau of Classification Research from the Public Service Commission to the Treasury and it is now called ‘The Classification Division’. These changes and the work done by the Bureau of Classification Research, have resulted in rationalising the classification and pay system. As stated by Mr. Johnson, “There have in fact been very substantial changes in this field; an entirely new classification and pay system has been installed and collective bargaining has been introduced into the public service. Now the Treasury Board and its secretariat are concentrating upon the initiation in cooperation with the Public Service Commission and Operating Departments of a comprehensive manpower development and educational progress.”

The net result of all these changes is a more powerful Treasury Board (as in U.K.). This is justified on the ground that the Treasury Board is the Cabinet Committee which has been chosen to act for the government in discharging these responsibilities and the concentration of all powers in a central agency like Treasury Board, is rational, economical and effective. The same reasons were given when the Treasury Board was established in 1867. The reforms of 1967 have enhanced the powers of the Treasury Board and the Board is expected to play an effective role in the personnel administration of Canada. As stated by Mr. Johnson, “The direction of change does seem to be consistent with emerging expectations as to how government ought to function in the

<sup>56</sup> Royal Commission Report, *op. cit.*, pp. 254, 294-295.

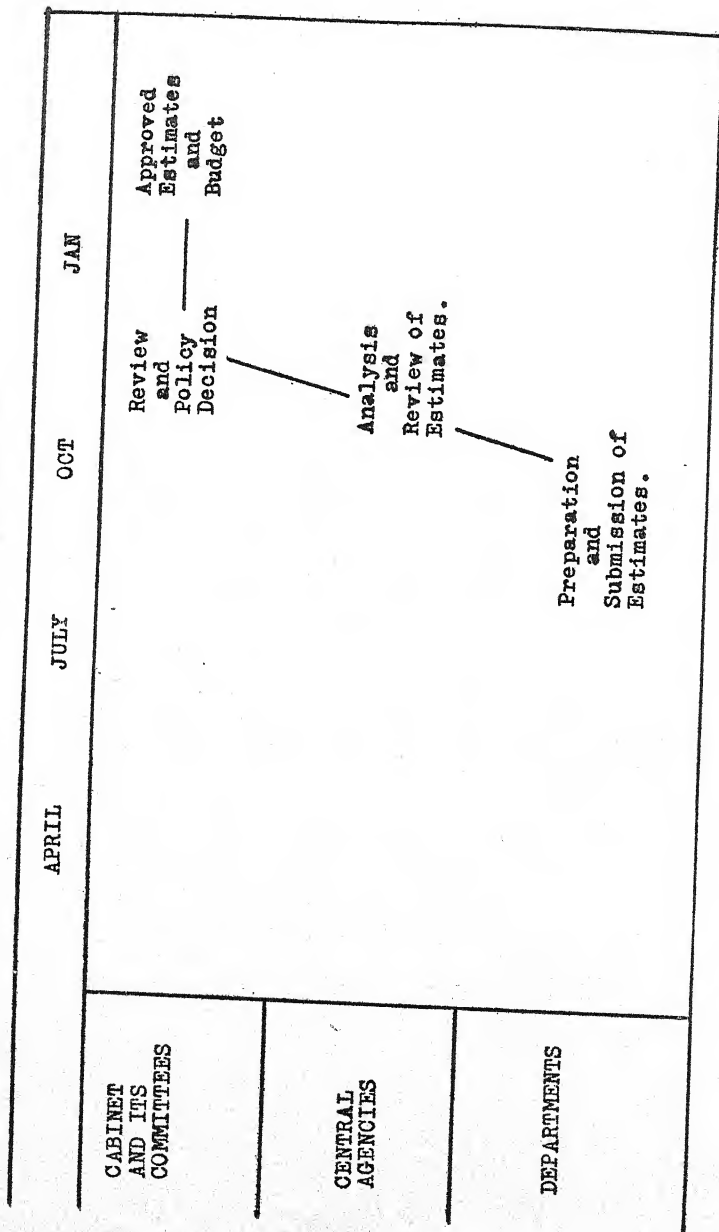
1970s—with greater openness and consequently, a wider discussion of the issues involved; with greater responsiveness to the will of the Parliament and the electorate; and with franker and more reasoned examination of the contributions being made by government measures, both old and new. Whether the changes being put into effect will in fact transform the bureaucracy in the manner now being demanded is the test to which this new machinery of Government—will have to be put.<sup>57</sup>



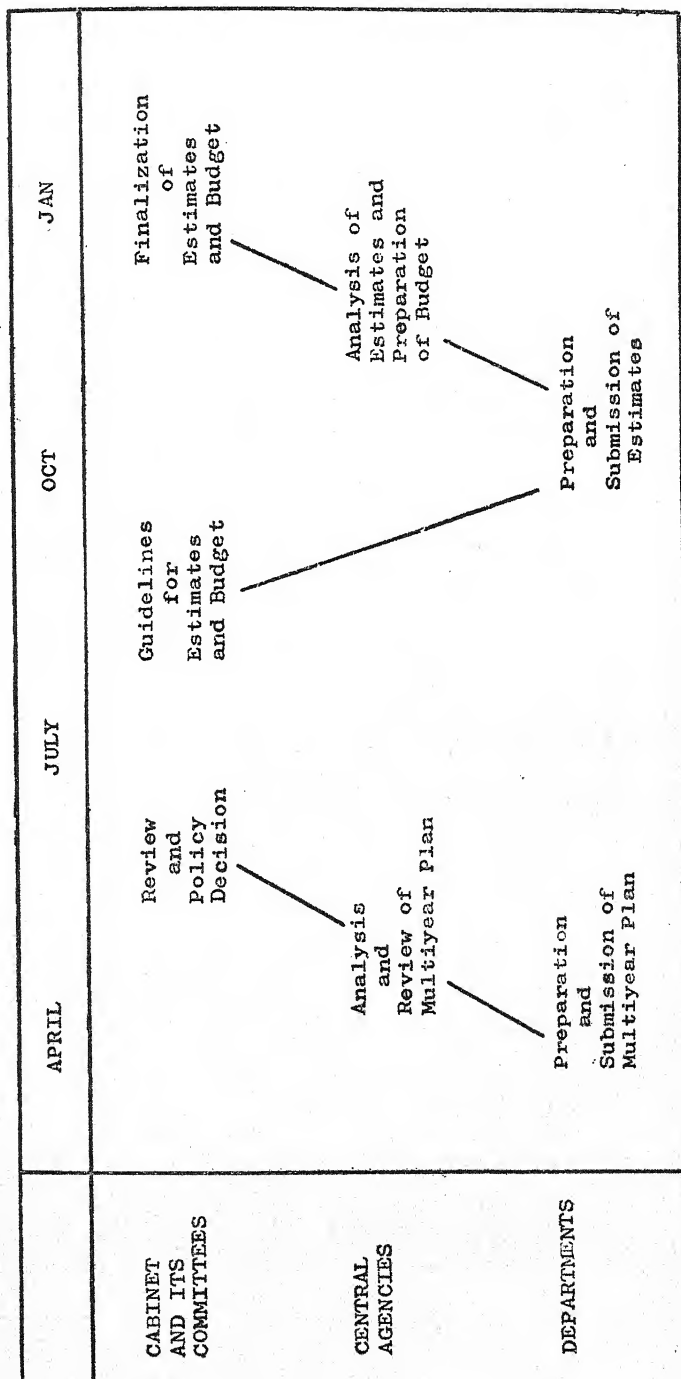
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<sup>57</sup> *Canadian Journal of Political Science*, op. cit., p. 364.

ANNEXURE I  
PROGRAMMING AND BUDGETING  
(Traditional Approach)



ANNEXURE II  
PROGRAMMING AND BUDGETING  
(new Approach)



## INSTITUTE NEWS

The Institute conducted the following Courses, during the past five months, *i.e.*, from February-June:

- (1) Fifth Course on Performance Budgeting for Public Undertakings, February 11-16 (New Delhi);
- (2) First Advanced Course on Materials Planning, February 25-March 2 (New Delhi);
- (3) Third Course on Organisation and Management, March 11-23 (New Delhi);
- (4) Fifth Course on Introduction to Computers, March 20-30 (New Delhi);
- (5) Special Course on Network Techniques and Performance Budgeting, April 18-26 (New Delhi);
- (6) Eighth Course on Administrative Leadership and Behaviour, April 15-27 (New Delhi);
- (7) Thirteenth Course on Performance Budgeting, April 17-27 (New Delhi);
- (8) Special Course on Network Techniques and Performance Budgeting, April 18-26 (New Delhi);
- (9) Third Course on Laws in Municipal Administration, April 24-May 4 (New Delhi);

- (10) Special Course on Network Techniques and Performance Budgeting for Government of Bihar, April 29-May 13 (Patna);

(At the request of the Bihar Government, this course was specially designed for their officers; all the 32 participants to the Course were drawn from departments of the State Government.)

- (11) Course on Operations Research and Decision-Making, May 10-21, (New Delhi);
- (12) Special Course on House-tax Administration, May 13-17 (Jullundur);

(The Course was specially conducted at Jullundur for executive officers of municipal committees in Punjab and others looking after the work of Punjab municipal committees.)

- (13) First Course on Personnel Policy and Practices, May 20-June 1 (New Delhi); and
- (14) Special Course on Network Techniques and Performance Budgeting for Bharat Aluminium Co. at Korba, Aug. 22-29, 1973.

Besides the Courses, the following seminars were also conducted

during the period:

- (1) Seminar on Slum Clearance and Improvement, February 5 and 6 (New Delhi)

Inaugurated by *Shri Om Mehta*, Minister of State in the Union Ministry of Works, Housing and Urban Development, it was attended by 90 top-level participants concerned with the subject in government, municipal bodies, international agencies, etc.

- (2) Seminar on Urban Planning and Development Authorities, March 1 and 2 (New Delhi)

It was attended by 57 top executives, including municipal councillors and mayors, from municipal bodies, improvement trusts, metropolitan authorities, etc.

- (3) Seminar on Municipal Budgetary Reforms, March 5 and 6 (New Delhi)

It was organised at the instance of Prof. G. Mukharji Committee on Budgeting Reforms in Municipal Administration (set up by the Seventh Annual Conference of Municipal Corporations) to seek further enlightenment from over 50 participating concerned senior officers on their views and experiences on the subject. *Shri Kedar Nath Sahni*, Mayor of Delhi inaugurated the seminar.

- (4) *Seminar on Role of Small Sector Industries in the Fifth Plan*, March 15 and 16 (New Delhi)

It was jointly organised by IIPA and the National Small Scale Industries Corporation, in which 32 persons—academics, administrators, representatives of small-scale industries and senior persons from Planning Commission—took part; it was

inaugurated by *Shri Mohan Dharia*, Minister of State for Planning in the Union Ministry.

- (5) *Seminar on House-Tax Administration*, May 17 (Jullundur)

This was held immediately after a special course on the subject also conducted at Jullundur. Besides 25 course participants, a number of Presidents and Administrators of municipalities in Punjab also joined raising the number of participants to 40.

In addition, a two-day Workshop on Case Studies was also conducted on March 23 and 24 in which case writers, experts on case writing and others interested in the subject took part and discussed seven cases.

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Two public lectures on the following topics were organised by the Institute at its headquarters.

- (1) "Alternatives to Bureaucracy" on March 20 by *Prof. Henry F. Goodnow*, Consultant, Asian Centre for Development Administration, Kuala Lumpur; and
- (2) "Administrative Aspects of Parliamentary Government: Some Comparative Ideas" on April 8 by *Mr. J.A. Craig*, Lecturer in the Department of Overseas Administration Service, Manchester University.

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The subject of IIPA Members' Annual Conference for 1974 is "Bureaucracy in India: Image and Reality". The conference is to take place some time in October; exact date and time will be decided later.

Typed copies of papers (in duplicate) on the subject from interested members of IIPA are to reach IIPA by September 15, 1974 for timely circulation to the conference members. The length of the paper should not exceed 5,000 words.

The annual Special Number of the Indian Journal of Public Administration will be on "Administration of Industrial Policy" this year. The Special Number, as usual, is to be brought out at the time of IIPA Members' Annual Conference to be held in October 1974.

Four subjects prescribed for IIPA's Annual Essay Prize Competition for 1974 are: (1) Energy Crisis and its Impact on Planning and Administration, (2) Public Administration and the National Crisis, (3) Machinery for Planning in India with Special Reference to the Role of Planning Commission and the Planning Boards in the States, and (4) Organisation Development — An Imperative for Public Sector Managements. A competitor is to choose one of these four subjects.

The essay to be entered in the competition should be based on personal research or thinking and scholarship as well as critical analysis, especially in its Indian context. Broad generalisations are to be avoided.

As usual, the first prize is of the value of Rs. 1,000 and two second prizes of Rs. 500 each. The prizes are to be given at the time of the Annual General Meeting of the Members sometime in October, 1974.

The essays, in English, approximately of 10,000 words (typed on one side of the paper) are to be submitted in triplicate under a *nom de plume* (with full name and address of

the competitor in a separate sealed envelope). The envelope containing the essay, marked "Essay Prize Competition — 1974" should reach the Director, Indian Institute of Public Administration, Indraprastha Estate, Ring Road, New Delhi-110001, not later than July 30, 1974.

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A new quarterly Hindi journal on public administration entitled *Lok Prashashan* is to be brought out by the Madhya Pradesh Hindi Granth Academy, Bhopal. Along with original articles, etc., in Hindi, each issue will contain Hindi translations of articles and features of *The Indian Journal of Public Administration*. Its first issue will be January-March, 1974.

Among others from the Academy, *Dr. B. D. Sharma*, Director (Tribal Development), Ministry of Home Affairs; *Shri M.K. Chaturvedi*, Chairman and Managing Director of Madhya Pradesh Industrial Development Corporation, Bhopal; and *Shri T.N. Chaturvedi* have been nominated on the editorial board of *Lok Prashashan*.

On the lines of *Lok Prashashan*, efforts are being made to bring out journals on public administration in regional languages also.

A similar arrangement may also be made to bring out a municipal affairs quarterly in Hindi, with, among original articles, Hindi translations from IIPA's *Nagarlok*.

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According to Director's note on progress of research and consulting activity during January-April, 1974, solely carried out by IIPA faculty, 11 research studies have been completed



and seven are nearing completion; five new studies have been taken up. On the consulting side, the consulting project on Management Control System and Long-range Planning for a Transport Undertaking is now complete and the report has been submitted. Three consulting proposals, which have been submitted, relate to: (a) the development of network, materials management, inventory control, costing, budgeting and budgetary control of a steel plant in the public sector, (b) setting up inventory Control in a State Electricity Board, and (c) materials planning and materials control in a State Electricity Board.

The details about the research studies are given below:

**Studies Completed:** (1) "Administrative Response to Emergency — A Study of Drought-relief Operations" by Prof. Kuldeep Mathur and Dr. M. Bhattacharya; (2) "Redeployment of Planned Investment for Disaster Relief" by Shri S. Mundle; (3) "Change in a Complex Organisation" by Prof. R. C. Goyal, Prof. J. K. Ray, and Dr. Jaideep Singh; (4) "Study of the Impact of the Operations of the National Small Industries Corporation Ltd." by Shri N. S. F. B. Tyabji, and Dr. K. N. Kabra; (5) "Economics of Optimal Production in the Fertiliser Industry" by Shri S. Mundle; (6) "A Study of the Hire Purchase Activity of the National Small Industries Corporation Ltd." by Prof. S.K. Goyal; (7) "Functioning of the Bureau of Public Enterprises" by Dr. R. K. Tiwari; (8) "Pilot Study in Field Administration — Organisational Aspects of District Planning" by Shri S. Mundle; (9) "Economics of Different Classes of Service in Railways" by Shri R.K. Sachedeva and Dr. B. N. Gupta; (10) "A Study of Malpractices in the Railways Reservation System"

by Shri A.V. Chaturvedi and Shri M.K. Narain; and (11) "A Study of the Processing and Procedures behind the Reservation Counter" by Shri D.D. Malhotra and Shri G. K. Amar.

**Studies to be completed shortly:** (1) "Pilot Study in Field Administration — Study of the Organisational and Administrative Practices" by Prof. Ishwar Dayal, Prof. Kuldeep Mathur, and Dr. Mohit Bhattacharya; (2) "Pilot Study in Field Administration — Study of Response to Administration of Individuals and Identifiable Groups in the Community" by Dr. K.N. Kabra; (3) "Priorities in Community Response to 'scarcity' conditions in Maharashtra — A Study of the Impact of an Unscheduled even on six rural communities" by Dr. Indira Mahadevan; (4) "Impact of Scarcity on Family Life: Perception by Families of Their Needs and the Extent to and the Manner in which these Needs were met by the Public and Voluntary Effort" by Shri V. M. Kulkarni; (5) "Study of a Research Laboratory" by Shri Ved Prakash; (6) "Organisation and Functions of a State Public Service Commission" by Dr. R. K. Tewari; and (7) "Study of Cost Behaviour and Price Policy in the Indian Drugs & Pharmaceuticals Ltd." by Dr. B. N. Gupta.

**New Studies:** (1) "Policy and Reality — Some Aspects of American Alliance Policy" by Prof. J. K. Ray; (2) "Citizen Grievances and Administration — A Case Study of Food & Civil Supply Department, Delhi Administration" by Dr. R. K. Tewari; (3) "Leadership in Urban and Rural Areas — a Pilot Study" by Shri B.M. Verma; (4) "Mutual Role Perceptions of Municipal Councillors and Officials" by Shri L. P. Gupta; and (5) "Social Welfare and its Administration in the Indian Setting"

by Shri V. M. Kulkarni.

Besides these, emerging from the deliberations of the meeting of Asian Centre for Development Administration's Study Team on Policy Analysis and Development, which the Director attended from April 11-13, the Institute is also undertaking studies on public policy in Government of India for a conference to be held later this year by ACDA at Kuala Lumpur.

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The following visited the Institute headquarters during January-June, 1974:

*Mr. B. Mahadeva*, Director, Asian Centre for Development Administration, Kuala Lumpur, January 23;

*Dr. O. Glenn Stahl*, Consultant on Public Administration from U.S.A., January 28;

A three member delegation from Bangladesh comprising *Prof. Mozaffar Ahmad Choudhary* (Leader), Chairman, Bangladesh University Grants Commission, *Dr. Wahid Uddin Ahmad*, Director of Technical Education in Bangladesh; and *Mr. M. Muhuddin*, Chief (Technical Assistance Programme) in Bangladesh Planning Commission; February 22;

A three-member delegation from Egyptian Institute of Planning, accompanied by *Prof. Ravi J. Mathai* of Indian Institute of Management, Ahmedabad, March 13;

*Dr. E. Van Tongeren*, President, Associated Scientific Publishers, Amsterdam, March 19;

*Prof. Edwin A. Bock* of Syracuse

University, April 1;

*Mr. J.P.E Bouvo* and *Mr. L.D. Galgalo*, senior officers from Government of Kenya, April 9;

*Mr. L.S. Edmonds*, Lecturer, Department of Administrative Studies for Overseas Visiting Fellows, University of Manchester, May 23;

*Dr. C. Inayatullah*, Expert in Social Change and Administrative Dynamics at the Asian Centre for Development Administration, Kuala Lumpur, May 25; and

*Dr. Ajit M. Banerji*, Deputy Director, Asian Centre for Development Administration, Kuala Lumpur, June 11.

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*Prof. Ishwar Dayal*, Director of IIPA, attended a Conference of Heads of Major Training Institutes in Asian Region, which was held from February 27 to March 7 at Kuala Lumpur, and contributed a paper on "Organisational Renewal".

The Conference was organised by the Asian Centre for Development Administration (ACDA) set up at Kuala Lumpur by the member countries of ECAFE with a view to helping the participating countries to improve their administrative capability for development through: (i) organising meetings, courses etc., (ii) undertaking research and comparative studies, (iii) organising collection, analysis and dissemination of information on development administration and related topics, and (iv) providing advisory and consultancy services on request.

Later *Prof. Dayal* attended a meeting of the Study Team of ACDA

on Policy Analysis and Development which was held at Kuala Lumpur from April 11-13 to develop a design for a study on the subject to be conducted by the members of the team at their national level.

*Prof. Dayal* also attended National Convention for 1974 of the Institute of Office Management at New Delhi on April 20.

Talks delivered by *Prof. Dayal* during the period were on: (1) "Organisational Change" at Chelmsford Club, New Delhi on March 22; (2) A series of talks to IAS trainees on April 26 & 27 at L.B.S. National Academy of Administration, Mussoorie; and (3) "Some Problems in Management Training" at New Delhi under the auspices of Indian Society of Training and Development (Delhi

Chapter).

*Prof. S.K. Goyal*, at the instance of the Government of India, proceeded to Baghdad on May 13 to take up a one-year assignment as adviser to the Planning Commission of Iraq.

*Prof. A.P. Barnabas* attended a meeting of ACDA's Study Team on Evaluation of the Implementation Systems for Family Planning and Population Programmes which was held from May 19-23 at Kuala Lumpur.

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The following talks were organised singly or jointly by IIPA's Regional and Local Branches during the period under review.

Branch & Date	Subject	Speaker
<b>REGIONAL BRANCHES</b>		
<i>Maharashtra</i>		
Bombay January 18 & 19	The Profile of Indian Administration before and after Independence	<i>Shri V. Shankar</i> , I.C.S. (retd.)
January 13, 14 and 15	Life and Times of Shivaji Maharaj	<i>Shri Setu Madhavrao Pagdi</i> , Scholar & Administrator.
March 18	The Krishna Waters Dispute: Its Origin, Development and Outcome	<i>Shri E. C. Saldhana</i> , Chief Engineer and Joint Secretary to the Government of Maharashtra, Irrigation and Power Department.
March 30	As I Look Back: The Evolution of Public Administration in India	<i>Shri T. Swaminathan</i> , former Cabinet Secretary to the Government of India and now Chief Election Commissioner of India.
April 3	Administrative Aspects of Parliamentary Government	<i>Mr. J. A. Craig</i> , Lecturer, Department of Overseas Administration Service, Manchester University.

(A series of the following four talks on "Swarajya of Shivaji's Conception")

April 23	Foundations of Swarajya	<i>Prof. J. V. Naik</i> , Department of History, Bombay University.
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<i>Branch &amp; Date</i>	<i>Subject</i>	<i>Speaker</i>
April 24	Coronation and its Significance	<i>Shri S. R. Tikekar</i> , Historian and Journalist.
April 25	Ideals and Institutions of Swarajya	<i>Dr. C. M. Kulkarni</i> , Head, Department of History, Bombay University.
April 26	Place of Swarajya in Indian History	<i>Dr. M. S. Agaskar</i> , Head, Department of History, Ramanarain Ruia College, Bombay.
<i>Punjab, Haryana &amp; Chandigarh</i> (Chandigarh)		
March 12	Some Reflections on Administration Today	<i>Shri T. N. Chaturvedi</i> .
May 6	Employer-Employee Relations in Government	<i>Prof. S. P. Verma</i> of IIPA.
<i>Rajasthan</i>		
February 19	On Problem of Low Productivity	<i>Shri D. S. Rangnekar</i> of Searle (India) Ltd.
April 18	Organizational Effectiveness	<i>Prof. Nitish De</i> of Indian Institute of Management, Calcutta.
April 22	Administrative Aspects of Parliamentary Government	<i>Mr. C. A. Craig</i> of Manchester University.
<i>Gujarat</i>		
April 28	Administration of Petrochemical Complex	<i>Shri J. J. Mehta</i> , Chairman, Indian Petrochemical Corporation.
<i>LOCAL BRANCH</i>		
<i>Dharwar</i>	CADA—A New Approach to the Development Administration	<i>Shri P. R. Dubhashi</i> , IAS, Administrator and Secretary to the Government of Karnataka, Malaprabha & Ghataprabha Projects, Dharwar.
April 10	Administrative Aspects of the Fifth Five Year Plan.	<i>Shri P. R. Dubhashi</i> , I A.S.

The Maharashtra Regional Branch of IIPA conducted the following seminars during the period under review.

(1) *Seminar on Computers in Government*

The Branch, in collaboration with International Computers (India) Private Ltd., organised the seminar on January 12 at Bombay in which possibilities of computer use in

governmental administration were discussed.

(2) *Seminar on State Planning and Economic Development in Maharashtra*

The Branch co-sponsored it with Maharashtra Economic Development Council. Held on April 1-18 at Bombay, several suggestions were made in the seminar for accelerating economic development of the State.

The *Tamil Nadu Regional Branch* also organised a two-day seminar on "Management by Objectives" on April 29 at Madras. It was inaugurated by *Thiru N. V. Natarajan*, Tamil Nadu's Minister for Backward Classes.

The *Rajasthan Regional Branch* organised an essay competition on "Administration of Law and Order". In the competition, first prize of

Rs. 700 was awarded to *Dr. P. D. Sharma*, Reader in Political Science, University of Rajasthan, and the second prize of Rs. 400 to *Shri V. N. Rajan*, Special Inspector-General of Police, Trivandrum.

The *Rajasthan Branch* has also decided (on April 15) to conduct two symposia on "Electoral Reforms" and "Citizen and Administration".

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## RECENT DEVELOPMENTS IN PUBLIC ADMINISTRATION

The Union Government has decided to set up a Banking Service Commission—a corporate body on the lines of UPSC—for public sector banks. To be entrusted with the task of recruiting officers to the 14 nationalised banks, it will be asked to recruit 25 per cent of vacancies in the cadre of non-specialist officers directly. The private sector would be allowed to utilise the services of the Commission on terms mutually agreed to. The Commission is to have a maximum number of nine members, including the Chairman and will have a fund of its own to meet its expenses. The fund will be created out of contributions from the nationalised banks.

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The Union Government has decided to set up a Central Electrical Authority (CEA) to manage power generation in the country. Power generation is to be separated from the Central Water and Power Commission after its reconstitution and will be handed over to the proposed central electrical authority. The authority would prepare a national policy and plan for power generation.

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In order to shift emphasis from regulatory functions—the main consideration so far—to technical development, the Union Government has reorganised its Directorate General of Technical Development. As a result, five new divisions have

been created comprising a separate directorate for energy and materials conservation, policy plans and co-ordination, management information, and technological development.

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The President of India gave assent to the Bihar Lokayukta Bill, 1973 which provides that for the purpose of conducting investigations, the State's Governor shall appoint the Lokayukta of Bihar, after consulting the Chief Justice of Patna High Court and the leader of the Opposition in the State Legislative Assembly. The Bill specifies the required qualifications—such as that the appointee should not hold any office of trust or profit or even membership of national or state legislature—as well as conditions of dismissal of the Lokayukta.

The Lokayukta may investigate any complaint involving allegation or grievance resulting from any action taken by or with the general or specific approval of a Minister or a Secretary or any other public servant. Certain areas, such as cases relating to Extradition Act, security of state, etc., have been exempted from his jurisdiction.

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The Government of *Jammu & Kashmir* has decided to have, a State Planning Board, a State Development Council, and District Planning Committees.

According to a decision taken on January 16, the Chief Minister of the State, who is also the Planning Minister, will be the President of the State Planning Board. The Board will also have a Chairman. Its total membership would be 15, which would include eminent specialists.

The board would assess the State's resources and evolve an appropriate development strategy to attain maximum rates of growth for different sectors, with special emphasis on development of backward areas and tribes, and also evaluate the implementation and impact of development schemes.

In order to secure maximum involvement of people's representatives, there will also be a State Development Council under the Presidentship of the Chief Minister. The Council will include the Chairman of the Planning Board, Cabinet Ministers, some Members of the Parliament and some Members of the State Legislature as also specialists in various fields. It has also been decided to have functional committees and sectoral working groups which will go into special areas of development.

District Planning Committees will be set up in the State to secure public participation and involvement in the planning process at the district and field levels. Non-official members, experts and others will be associated with these committees.

The foregoing will be underpinned by strengthening of the set up of the State's Planning Department which will now have among its constituents units the following sections dealing with: (1) Plan Information and Monitoring, (2) Project Formulation, (3) Perspective Planning, (4) Functional Planning, (5) Area Planning, (6) Coordination, and (7) Statistics.

The arrangement is on an All India pattern commended by the Planning Commission and supported by financial assistance from the Centre.

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The Government of *Madhya Pradesh* has decided to bifurcate two of its out-sized districts, namely, Bastar and Bilaspur, for administrative reasons. With this bifurcation the State will have 47 districts.

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The Union Government has set up a Committee to review the present system of recruitment to IAS and other central services which is headed by *Dr. D.S. Kothari*, Chairman of the University Grants Commission.

It would make recommendations relating to: (1) desirability of having single competitive examination (in place of the present three examinations) for the all-India and other Class I posts, (2) adequacy of personality test, (3) desirability of including more technical subjects in the list of optional papers for IAS examination, (4) number of chances to be allowed to a candidate in IAS examination, and (5) necessary measures for implementing Government order to have all languages mentioned in Constitution's VII Schedule, along with English, as medium of examination for IAS. It will also review the present system of direct recruitment to Class I and Class II posts, and suggest measures to speed up recruitment to scientific and technical posts.

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The decision of the Union Government on recommendations of the Third Pay Commission relating



to Class I Officers, accepting all the recommendations relating to IAS/IFS and improving upon some relating to central services—including Police Service—in order to narrow the gap between their pay scales and those of IAS/IFS, was announced in Lok Sabha on March 29. The new pay scales of Class I Officers, to take effect from January 1, 1973, are given below (the existing scales are given in parenthesis): *IAS/IFS*: Junior Scale Rs. 700—1300 (Rs. 400—1000), Senior Scale Rs. 1200—2000 (Rs. 900—1800), Selection Grade Rs. 2000—2250 (Rs. 1800—2000); *Indian Police Service*: Junior Scale Rs. 700—1300 (Rs. 400—950), Senior Scale 1200—1700 (Rs. 740—1300; Pay Commission recommended the scale of Rs. 1100—1300), Selection Grade Rs. 1800 (Rs. 1400; Pay Commission recommended Rs. 1650—1800), D. I. G. Rs. 2000—2250 (Rs. 1600—2000), Additional I. G. Rs. 2250—2750 (Rs. 2000—2250), I.G. Incharge of State Police Rs. 2500—2750 plus special allowance of Rs. 250 per month (Rs. 2500—2750); *Organised Engineering Services*: Junior Scale Rs. 700—1300 (Rs. 400—950), Senior Scale 1100—1600 (Rs. 700—1250), Junior Administrative Grade Rs. 1500—2000 (Rs. 1300—1600/1800), Selection Grade Rs. 2000—2250 (there was no selection grade, (before), Heads of Department: 50 per cent of the posts in Rs. 2250—2500 and 50 per cent in Rs. 2500—2750 (Pay Commission recommended the ratio of 2/3:1/3 for these two scales; the existing scales Rs. 1800—2250/2000); *Other Engineering and Non-technical Services*: Junior Scale Rs. 700—1300 (Rs. 400—950), Senior Scale Rs. 1100—1600 (Rs. 700—1250; Pay Commission recommended Rs. 1050—1600), Junior Administrative Grade Rs. 1500—2000 (Rs. 1300—1600/1800); Heads of Department, 50 per cent in Rs. 2250—2500 and 50 per

cent in Rs. 2500—2750 (Pay Commission recommended the ratio of 2/3: 1/3; existing three scales are Rs. 1800—2250/2000, Rs. 2000—2250, and Rs. 2000—2500), a Selection Grade of Rs. 2000—2250 had been recommended for the first time for Economic and Statistical services.

The concept of selection-grade in Class I Services, introduced for the first time by the Commission has been accepted by Government. The strength of this grade will be determined after a review of cadre structure and promotion prospects, etc., in each service. The Commission recommended 20 per cent posts in the Selection Grade which the Government cut down to 15 per cent. The Government has also extended Selection Grade of Rs. 2000—2250 to organised engineering services on the basis of stagnation at the Maximum of Rs. 2000 in the Junior Administrative Grade for two years. This will also apply to Economic and Statistical Services but on the basis of the posts to be determined by Government.

Besides waiving the condition recommended by the Commission regarding not allowing increments, till completion of 14 years service, to an Officer of Central Services appointed to the Junior Administrative Grade (Rs. 1500—2000), the Government further improved the service prospects of such officers.

The Government accepted the Commission's condition, laid down for the first time, that IAS Officers should not be eligible for appointment to the Selection Grade before they enter their 14th year of service.

While the Commission did not recommend any revision of pay for posts above the level of Joint Secretaries, it recommended selective

up-gradation of posts at this level for the Central Services.

Later, on May 4, the Union Government also announced its decision on recommendations relating to other benefits. Accordingly, the formula for the grant of dearness allowance, as recommended by the Commission has been made applicable to Class I employees also, along with the improvement made by the Government in the case of Class II and IV employees.

The rates of family pension as well as the ceilings have been raised to 15 per cent of pay, subject to a maximum of Rs. 150 in the case of government servants drawing a pay of Rs. 700 and above but below Rs. 1200. For employees getting Rs. 1200 and above as pay, the amount of family pension will be 12 per cent of their pay subject to a minimum of Rs. 160 and maximum of Rs. 250.

The Government accepted a recommendation of the Commission regarding family pension according to which an employee dying after rendering a minimum service of seven years, will be paid at an enhanced rate equal to 50 per cent of the last pay drawn or twice the ordinary family pension at the aforesaid rates, whichever is less, for a maximum period of seven years or till he would have attained the age of 65 years, had he survived, whichever is earlier.

A relief at the rate of 5 per cent of their pension subject to a minimum of Rs. 5 and a maximum of Rs. 25 has also been granted to Central Government employees, who retired on or after March 1, 1974.

The Union Government announced on March 29 its decision on the

University teachers' new pay scales recommended by Sen Committee which was appointed by the University Grants Commission.

To be effective from January 1, 1973, the new pay scales (existing scales are given in parenthesis) are: Lecturer: Rs. 700—40—1100—50—1600 (Rs. 400—950); Reader: Rs. 1200—50—1300—60—1900 (Rs. 700—1200); Professor: Rs. 1500—60—1800—100—2000—125/2—2500 (Rs. 1100—1600 and a selection grade of Rs. 1600—1700). There will be a new category of Professor—Professor of Eminence—who will be given Rs. 3000 (fixed).

The revised scales of the affiliated colleges (post-graduate and under-graduate) will be as under: Demonstrator/Tutor (existing incumbent): Rs. 500—20—700—25—900; Lecturer: Rs. 700—40—1100—1200—50—1300—Assessment—50—1600; Principal: (i) Rs. 1200—50—1300—60—1900, and (ii) Rs. 1500—60—1800—100—2000—125/2—2500.

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The Union Government announced, on June 7, substantial improvements in the pay scales of Defence Force personnel below officer rank over those recommended by the Third Pay Commission. The revised pay scales provide a longer span of scale, improvement in rate of annual increment and consequential increase in dearness allowance, city compensatory allowance and other allowances, where applicable. The revised pay scales are to take effect retrospectively from January 1, 1974.

Under the new pay scales, personnel below officer rank would get about 40 to 60 per cent more than what they were getting before. In addition, they are entitled to special

allowances, like Classification and Good Conduct Pay. They are also entitled to free rations, free accommodation, clothing, medical facilities, leave travel concession, etc. Their pensions have been raised to correspond with the new scales.

The new pay-scale in army—including their corresponding pay scale in Air Force and Navy—are: Infantry Soldier Rs. 200—5—260, Infantry Havildar Rs. 250—6—330, Naib Subedar Rs. 360—15—450, Subedar Rs. 470—20—590, and Subedar Major Rs. 650—25—750. The pay scales of technical officers have been kept higher.

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The Union Government has decided to adopt a new performance-oriented system of writing confidential reports of its employees in which there will be only two types of categorisation, namely, "fit" and "not yet fit". The term "unfit" has been deleted from the confidential report forms and in its sufficient space has now been provided for an objective assessment of the performance of an employee. The decision has been taken in the light of Administrative Reforms Commission recommendations on the subject.

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The Government of *Kerala* has granted a raise in scale to its Class IV employees which is even higher than that given to their counterparts in the Central Government. Some of the other salient features of the State Government's order on pay revision are total acceptance of the Central DA formula, and liberal house rent allowance for employees in urban areas.

The new order, which retrospectively takes effect from last July, fixes

the minimum basic pay of a Government servant in *Kerala* at Rs. 196 and the maximum at Rs. 1900.

A weightage of one increment for every seven years of service subject to a minimum of Rs. 15 and a maximum of Rs. 50, has been given. In place of the flat house rent allowance of Rs. 7 admissible only to those drawing up to Rs. 400, the State Government has now related it to basic pay and fixed it at 8 per cent of the basic pay of all employees residing in corporation areas irrespective of their class. Employees residing in rural areas will not get any HRA now.

The pay revision, costing the exchequer an extra Rs. 12 crores a year (it is already spending around Rs. 140 crores in salaries or nearly 67 per cent of total revenue), will benefit 2.36 lakh Government servants and 1.25 lakh teachers and other employees in educational institutions and local bodies.

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The Government of *Kerala* in modification of the orders of December last, has decided to regularise the services of those persons who were employed through employment exchanges as temporary (provisional) hands—including teachers of Education Department—and who have completed two years' continuous service. According to the earlier orders, they were not to be retained in service beyond three months. The modification has been made as many such employees were continuing in service for much longer periods.

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The Government of *Kerala* has issued orders enlisting the ministerial

posts in the Police Department under the Kerala Police Act. Accordingly, the existing vacancies of Lower Division Clerks and Typists in the Police Department, which are now filled up by direct recruitment through the Public Service Commission, will be filled up by the Inspector-General of Police, as the posts below the rank of Sub-Inspector of Police are outside the purview of the Commission. These posts will be designated as Havildar Clerks and Havildar Typists respectively. The State Government has also prescribed qualifications and method of appointment for these posts.

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The Government of *Maharashtra* on May 1, 1974, constituted a municipal service of the Chief Officers to be called the "Maharashtra State Municipal Chief Officers' Service". The object is to bring about a more efficient service of Chief Officers of all Municipal Councils established under the Maharashtra Municipalities Act, 1965, with uniform conditions of service to carry out the functions and duties entrusted to them. This service consists of certain classes, cadres, posts and initial strength of officers. The State Government has also formulated reeruitment rules called the Maharashtra State Municipal Chief Officers' Service (Recruitment, Absorption and Condition of Service), Rules, 1974, which have come into force from May 1, 1974.

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Major concessions have been given to Scheduled Castes and Backward Class candidates in recruitment and promotion in *Punjab* Government Services. Accordingly, for Balmikis and Mazbi Sikhs 50 per cent posts of patwaris and constables have

been reserved. In addition, reservation for direct recruitment in all state government jobs has been raised from 20 to 25 per cent for Scheduled Castes and from 2 to 5 per cent for Backward Classes in view of increase in their population in the State. For promotions to Class I and II services, 14 per cent seats would be reserved for Scheduled Castes and 2 per cent for Backward Classes and, in the case of Class III and IV services, it would be 20 to 2 per cent respectively. The new policy of reservation would continue till these classes attained their prescribed proportion of reservation, viz., 25 per cent and 5 per cent respectively, in all these services. A statement regarding this decision was made by the State Chief Minister in the Assembly on March 7.

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The Government of *Rajasthan* has constituted a Working Group to go into the question of integration of various State Services controlled by the Finance Department, viz., Commercial Taxes Services, Excise Services, Land & Building Taxes Services, and the Stamps and Registration Services.

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According to the provisions of the *West Bengal* Services (Unification of State Services) Rules, 1974, the West Bengal Junior Civil Service (Executive), the West Bengal Junior Agricultural Income-tax Service, the West Bengal Junior Excise Service, and the West Bengal Junior Educational Service shall each form a single service with the corresponding State Service with a senior scale of Rs. 475—1150 and a junior scale of Rs. 425—825. Similarly, the West Bengal Junior Labour Service, the West Bengal Junior Food and Supply

Service and the West Bengal Junior National Employment Service shall each form a single service with the corresponding State Service with a senior scale of Rs. 450—1050 and a junior scale of Rs. 400—750. There will not, however, be any selection grade for the junior scale in the unified services.

The junior scale officers will be eligible for promotion to senior scale on fulfilment of certain conditions.

According to an amendment to West Bengal Services (Revision of Pay & Allowances) Rules, 1970, an intermediate new Selection Grade has been introduced with effect from March 1, 1974 at 10 per cent of the service/cadre in almost all services/cadres, namely, clerical, technical, medical, etc., excepting the unified grade mentioned above. The intermediate selection grades will be admissible after 10 years of service in the grade next below.

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A package programme, the first of its kind, is to be undertaken by the Union Department of Social Welfare to benefit children up to the age of six years as well as expectant and nursing mothers. According to a 140-crore rupee scheme cleared for the purpose by the Planning Commission for the next five years, nearly ten million women and children (including the existing four million beneficiaries) will receive special nutrition.

The package will consist of the following six services: supplementary nutrition, immunisation, health check-up, referral services, including ante-natal and post-natal care for women, nutrition and health education and pre-school education. About 1,000 projects will be set up

over the next five years under the programme, 380 of them in tribal areas and the rest to be equally divided between urban and rural areas. A project in a rural area will cover 100 villages and that in a tribal area 50. Each urban project will consist of a 100 feeding centres, already in operation. Such centres, in fact, are operating in 1972 community development and tribal blocks and 248 cities. These will be converted into projects under the programme, which will be known as Integrated Child Care Services.

In addition to the 140 crore Rupees allocated for the programme by the Planning Commission, Rs. 218 crores have been provided for its nutrition component in the State Plan. The Social Welfare Department has suggested that the outlay on supplementary nutrition in the State sector should be included in the Central Plan to help in unified administration. It is proposed to involve the Social Welfare Board and voluntary agencies also in the implementation of the programme. A technical cell is being set up in the Social Welfare Department to take care of project formulation, monitoring and evaluation.

In its efforts to mitigate sufferings of the handicapped and promote their speedy rehabilitation, the Union Government is to give grants to laboratories and creative individuals to initiate research aimed at developing indigenous aids at reducing the limitations of physical impairment. This is one of the various projects being undertaken by the Department of Social Welfare during the current year. An outlay of Rs. 11 crores has been earmarked in the Fifth Plan for the welfare of the handicapped, which is more than four times that in the Fourth Plan.

The Government of Kerala has set up an 11-member Pollution Control Board to advise the Government on measures to be taken for controlling water and air pollution in the State.

The Government of Kerala as announced in the State Assembly by the Chief Minister, has fixed the maximum limit to the pension payable to any prince at Rs. 250. It would be payable for only 10 years. The pension presently ranged between Rs. 5 and 50,000.

The Government of Maharashtra has, with a view to having more efficiency and speed in providing basic amenities, such as water, sanitary arrangement, light, etc., to the slum dwellers, constituted the Maharashtra Slum Improvement Board under the chairmanship of *Shri D. T. Rupavate*, Minister of State for Housing. The Board is the statutory authority under the Maharashtra Slum Improvement Board Act, 1973. Among its 18 members, 10 *ex-officio* members have been drawn from municipal corporations and Housing Boards of Maharashtra and Vidarbha and 8 non-official members have been appointed by the State Government.

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In order to streamline and modernise procedures governing working of various ministries and departments, the Union Government has decided to effect major institutional changes in the system of financial administration at the Centre. As a result, financial advice will now be available to the Ministers at all decision-making levels replacing the present system of referring major decisions to the Finance Ministry. This measure towards integration of financial scrutiny will enable to achieve better

project formulation, investment decisions and implementation with assured flow of funds and ensure development of increased capabilities in financial management on the part of different departments as well as delegation of powers to subordinate organisation.

The Government will now achieve complete switchover to performance budgeting as early as possible and shift emphasis from financial to physical targets and ensure long-term planning and review of policies. The administrative and financial rules and regulations will be codified afresh in simple and precise language; new procedures will be laid down to simplify arrangements for prompt settlement of claims of employees. The procedures in the public sector banks to transact Government business will also be streamlined for the convenience of citizens.

These decisions have been taken following the recommendations of the Special Group of senior officers and management experts in the public sector which was set up to suggest measures to gear up financial administration.

The Draft Fifth Five Year Plan is presently being subjected to a reappraisal in view of the oil crisis and the general increase in prices. For this purpose, experts in the Planning Commission are studying the impact of the following on the plan frame: oil crisis, rise in prices, performance of economy last year, and world economic situation. A statement to this effect was made in the Rajya Sabha on March 7 by *Shri D.P. Dhar*, Union Minister for Planning.

The Union Budget for 1974-75 has a deficit of Rs. 311 crores. Of this, Rs. 212 crores are to be raised



through additional taxes. After deducting the States' share of Rs. 26 crores, tax proposals (taking customs and central excise duties together) will yield to the Centre only Rs. 186.10 crores, leaving an uncovered overall deficit of Rs. 125 crores. Deficit in last year's (1973-74) budget at the year end has been placed at Rs. 650 crores.

In deference to the Wanchoo Committee recommendations, income-tax ceiling has been lowered from 97.25 to 77 per cent (including surcharge) and the floor level has been raised from Rs. 5,000 to Rs. 6,000. In fact, taxes at all levels of personal income have been lowered. Wealth tax exemptions in regard to farm houses, annuities and insurance policies have been revised. In order to share windfall of profits of companies, the surtax rate has been raised from 30 to 40 per cent.

The revenue receipts for the year 1974-75 have been estimated at Rs. 5,455 crores and expenditures at Rs. 5,408, leaving a revenue surplus of Rs. 47 crores. The capital receipts are estimated at Rs. 3099 crores and disbursements at Rs. 3,457 crores leaving a deficit of Rs. 358 crores on capital account. The overall deficit gets reduced to Rs. 311 crores after taking into account the revenue surplus.

In the budget, higher outlays have been provided for the core sector and development of energy resources; development of coal has been accorded high priority.

Of the additional tax revenue, excise duties account for a net yield of Rs. 191.97 crores in 1974-75, of which Rs. 25.92 crores will accrue to the States and Rs. 166.05 crores to the Centre.

Besides substantial increases in postal and telephone rates, excise duty is to be raised on luxury goods and other items, including superfine, fine and medium fabrics, polyester fibre, cigarettes, smoking mixtures, cement, petrol, lubricating oil and greases, scooters, refrigerators, air-conditioners, TV sets, various categories of paper and board, office machines, dry batteries, imported liquor, etc.

In view of the suggestion made by the Planning Commission to effect improvements in the formulation and implementation of plan programmes at the State level, the Government of *Karnataka* has restructured its Planning Department.

Accordingly, the Planning Department will now consist of these sections: (1) District and Regional Planning, (2) Perspective Planning, (3) Manpower and Employment, (4) Plan Monitoring and Information, (5) Project Formulation, (6) Evaluation, (7) Administrative matters connected with the Bureau of Economics & Statistics, and (8) Plan Coordination.

The State Government has also decided to set up a high-power Committee for recruiting suitably qualified persons against various posts in the Department.

As per the organisational chart, at the top of the department is the State Cabinet; Chief Minister and Minister for Planning; Finance Minister and Vice-Chairman of State Planning Board; and Development Commissioner and Member-Secretary of State Planning Board in that order. With a view to ensuring effective coordination and programming of the activities of the various units, there shall be a Committee of



Direction headed by the Secretary (Planning).

The above mentioned functional units are in addition to bodies, like State Income Unit, Economic Division, etc., in the Bureau of Economics and Statistics set up from time to time. The existing Secretariat staff in the Planning Department is to continue.

Similar to the salary disbursement system followed by the nationalised Banks, Life Insurance Corporation of India and other undertakings, the Government of Kerala has ordered that the salary of all Government employees, including private school/college staff and part-time and full-time contingent employees, be given salary during the last three working days of the month, except March for which payments will be made in April. Accordingly, different State Government Departments have been grouped into three and a calendar has been prescribed for payment of bills/cheques.

In view of the urgent need for augmenting resources for financing the Fifth Five Year Plan, the Government of Uttar Pradesh has decided to appoint a Taxation Enquiry Committee with effect from April 1, 1974. This 4-member Committee is headed by Dr. D. T. Lakdwala, Director, Department of Economics, Bombay University. An officer of the Reserve Bank of India, dealing with comparative State Finance, will act as an adviser. The Chairman and Secretary will be whole-time members.

Before suggesting fresh avenues of tax and non-tax revenues and changes in rates for the State and the Local Bodies in the context of the Fifth Five Year Plan, it will examine the suitability and effectiveness of the present system of taxation

both at the level of the State and Local Bodies, like Municipalities, Zila Parishads, Panchayat Samitis and Panchayats as well as the taxable capacity of various income groups and the existing burden of taxation on them. The Committee will suggest necessary measures for recovery of arrears of outstanding dues. It will also suggest suitable changes, where necessary, for streamlining the tax administration, keeping in view the need for economy, consistent with reasonable efficiency causing the minimum inconvenience to the public, and prevention of corruption.

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The Union Government has decided to introduce crop insurance in selected areas in the country. Accordingly, the General Insurance Corporation has been asked to take up crop insurance schemes, in the first instance, for selected cash crops in six States, i.e., Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal, which have the infrastructure to ensure the provision of inputs and assess the level of production. To begin with, crop insurance will be applied to cotton and groundnuts. A committee consisting of the members of the Governing body of the General Insurance Corporation has been set up to examine in depth the most feasible pattern of crop insurance. On the basis of the Committee's report, the insurance scheme is expected to be extended to other crops also wherever feasible.

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The Government of India has constituted a Committee to review the progress of rural electrification in the Eastern States and submit its report, within six months, making suggestions to improve the situation.

The seven-member committee is headed by the Union Deputy Minister for Irrigation and Power, *Prof. Siddheshwar Frasad* and includes three MPs and representatives of the Planning Commission, Rural Electrification Corporation, and Central Water and Power Commission.

The Government of *Gujarat* has constituted a State Agricultural Development Council under the Chairmanship of *Shri Gopalbhai V. Patel*, MLA. The main functions of this Council would be to advise Government on the following matters: (i) effective and efficient Plan implementation at the district level; (ii) improvement of extension services in the agricultural and allied fields; (iii) participation by small farmers and agricultural labourers in the agricultural and allied developmental programmes; (iv) processing and marketing of agricultural commodities; and (v) water use and management and on-farm development.

The *Kerala* Legislature passed on March 14 the Kerala Agricultural Workers Bill, 1974 as reported by the Select Committee. The Bill, a pioneering effort, has generally been hailed as the *Magna Carta* by all sections of labour.

The Bill provides for regulation of service conditions, for dispute settlement machinery and welfare of agricultural workers. It confers such benefits on agricultural workers as security of employment, payment of wages higher than the minimum rates of wages fixed or revised in the Minimum Wages Act, fixation of Working hours, etc. It also envisages the constitution of an Agricultural Workers' Provident Fund. Statutory provisions on the lines of those contained in the Industrial Disputes

Act for settlement of disputes concerning agricultural workers are also incorporated.

The Bill provides that executive machinery of every local authority shall maintain a register of agricultural workers residing within the jurisdiction of that authority. It also enjoins that the landowners shall also have to maintain such registers.

The punishment for various offences relating to the Bill is imprisonment for a term extending up to six months or fine up to Rs. 1000 or both; strict punishment has been provided for continued contravention.

According to the exemption provision, a landowner, who does not hold more than one hectare in extent of land, is, however, exempted from the provision regarding security of employment, penalties and keeping of registers.

The Government of *Maharashtra* has set up a 10-member expert Committee to study the agricultural situation in the State. Besides five nominees of the State Government, three are from the Union Government and two from Food and Agricultural Organization (FAO) of the United Nations Organization. The convener of the Committee is *Shri L. S. Lulla*, State Government's Secretary (Agriculture). Besides reviewing the agricultural production and animal husbandry programmes in the State during the last decade, it would suggest concrete steps to increase agricultural productivity and income of persons engaged in agriculture and animal husbandry and take into account the investment needs of, particularly the small farmers. It would also review the administrative, technical and

extension structure in operation at present.

A full Bench of the Punjab and Haryana High Court struck down as unconstitutional certain provisions of the Punjab Land Reforms Act, 1972, relating to the concept of family ceiling.

The court held that the provisions of Section III (IV), proviso (II), Section IV, Section IV (IV) of the Act were violative of the Constitution. According to these provisions, a family consisting of husband, wife and three minor children were entitled to retain one permissible area. The Court held that this artificial definition of the family could not be considered to be a measure of land reform.

The court further held that these provisions also offended against the proviso to Article 31(A) of the Constitution which provided for the payment of market value if the land within the ceiling limit was acquired. By the process of clubbing land of the members of the family, the land which might otherwise be within the ceiling limit as far as individual members of the family were concerned, was sought to be acquired on payment of nominal compensation under the provisions of the Act. This provision of the Act, the full Bench held, was violative of the second proviso of Article 31 (A) of the Constitution.

The validity of the Punjab Land Reforms Act was challenged by Sarvashri Sanjeev Kumar, Parveen Kumar and other land-owners of Fazilka area of Punjab.

*Punjab, Haryana and Himachal Pradesh* governments have decided to constitute a permanent joint committee to coordinate efforts by the

three states for development projects. This Committee is expected to ensure mutual collaboration by the states in the progress of development projects.

The Government of *West Bengal* has decided to set up a five-member Land Commission to go into the question of the land problem, including the question of finding out various matters with particular reference to the evaluation of achievements and implementation of land reform measures. The Commission would suggest measures how "bargadars" could enjoy full rights conferred on them by law.

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The Union Ministry of Industrial Development and the Department of Science & Technology have jointly set up 17 State Research, Development and Design (RD&D) Committees to receive and scrutinise the problems of research, development and design posed by the small industries. The Committees have a term of two years.

The composition of each Committee is confined to the representatives of the National Laboratories, leading engineering and technical colleges, I.I.T.s., representatives of small industry, Directorate of Industries of States, Indian Institute of Science, and leading public sector undertakings. The Convener of the Committees is the Director, Small Industries Service Institute.

The Chief Controller of Imports and Exports has introduced a simplified procedure to ensure quick disbursement of export benefits and grant of import replenishment licences. This envisages immediate disposal of claims of exporters on the basis of exports certified by any

Chartered Accountant. All exporters, who have a minimum export performance of Rs. 2.5 lakhs in any of the previous three years, will be eligible to take advantage of the scheme. In the case of manufacturing exporters in the small-scale sector, this limit has been reduced to Rs. 50,000. During last two years, this procedure was tried on a limited scale to cover about 300 exporters. Its scope has been liberalised this year to cover more than 1,000 exporters.

As a measure of simplification of procedures, the Chief Controller of Imports and Exports (CCI&E), has delegated to all subordinate licensing authorities powers to revalidate all categories of import licences for raw materials, components and capital goods, issued under free foreign exchange and rupee payment areas. Similarly, licences issued under U.K. credit (U.K. Maintenance Loan) can also be revalidated by the port licensing authorities.

The Union Government has decided to set up a Bitumen Marketing Corporation as a joint stock company in the public sector for marketing the entire bitumen production in the country. The Corporation will promote bitumen sales in bulk in a phased manner. A bill for this purpose is to be presented in Parliament soon.

The total outlay in the initial years up to 1978, including working capital (Rs. 5.63 crores), will be nearly Rs. 21.36 crores.

The Government of *Karnataka* has decided to float a new state-owned company called "Karnataka Copper Consortium" at an estimated cost of Rs. 7.50 crores to undertake mining of copper ore in Kalyadi (Hasan district) and Tinthani

(Gulbarga district) and take up the manufacture of copper concentrates. The Consortium would be composed of Chitaldurga Copper Company, Hatti Gold Mining Company and Mysore Minerals. The project would go on steam in 18 months.

On commissioning of the project, copper concentrates to the extent of 15,000 to 18,000 tonnes would be produced. At present, the Chitaldurga mines are producing about 3000 tonnes of concentrates. India is now importing about 12,000 tonnes of concentrate, costing over Rs. 7 crores.

The National Advisory Board for Labour Cooperatives, which met in New Delhi on February 19, has recommended constitution of a National Federation of Labour Cooperatives for giving central direction and coordinating the activities of the labour cooperatives in the country. The Advisory Board has urged that the various departments of Central and State Governments and Public Sector Undertakings should adopt a positive policy of encouraging labour cooperatives in their construction activities. For this purpose, the Board has suggested giving of financial assistance to them by the State Governments to have technical experts and engineers along with requisite tools and machinery on concessional terms thereby enabling them to undertake specialised jobs. Besides the Board has made other recommendations as well.

There are over 7,300 labour contract and forest labour cooperatives in the country with a total membership of nearly 6 lakhs. The value of civil and forest contracts taken up by them annually is of the order of Rs. 24 crores. State level federations of labour coöperatives

have been organised in six States, as also in the Union Territory of Delhi.

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An All-India Survey of Educational Administration is being undertaken by the Government of India as part of the Third All-India Educational Survey. It will cover the existing machinery and its functioning for educational planning, financing, supervision and administration in various States and Union Territories.

To be completed by the end of February 1975, the survey has been entrusted to the National Staff College for Educational Planners and Administrators. A 10-member Advisory Committee set up for the Survey is headed by the Director, National Staff College for Educational Planners and Administrators.

The Union Minister for Education, Social Welfare and Culture has appointed a 9-member Committee under the Chairmanship of *Mr. Justice S. A. Masud*, a Judge of Calcutta High Court. The Committee will determine the lines on which Visva-Bharati may be developed and recommend guidelines for amendment of the Visva-Bharati Act.

The Union Minister for Education and Social Welfare has set up a Committee to work out the details of the Central University to be set up at Pondicherry. The Committee is headed by *Dr. George Jacob*, Chairman of the University Grants Commission, and has eight other members.

One of the important recommendations made by a Conference of State Directors of Education, which concluded in New Delhi on January 29, is that steps should be taken to

improve school curriculum and text books to strengthen national unity. The Conference felt that the national integration programme should become an integral part of the curricula.

The Government of Bihar announced on March 27, setting up of a 7-men high-powered Committee headed by *Shri Ramanand Singh* (a retired Education Commissioner of the State) to suggest measures to make university education job-oriented.

The Government of Orissa has set up a seven-member Committee under the Chairmanship of *Shri Radhanath*, MLA, to examine the restructuring of primary education in the State with a view to involving the community and the local bodies more intimately, upgrading the standards of primary education, and raising the status of primary school teachers to that of the Government employees.

The terms of reference of the committee are: to suggest procedure and principles to be followed to form a cadre or cadres of primary school teachers with district as the cadre-area; to suggest the manner and extent of control to be exercised on the primary school teachers by the District School in order to enable it to fulfil its functions; to suggest methods for maintaining and enlarging the scope for community incentives and participation in the context of the Fifth Plan targets, and to prepare "model service conditions", including the mode of recruitment, consistent with the aims of the Orissa Education Act and the need for safeguarding minority rights under the Constitution. The Committee will submit its report within one year of its appointment.

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Coming into effect from April 1, 1974, the new Cr. P.C. takes the Directive Principle of Article 50 of the Indian Constitution as its life force. Accordingly, now all judicial officers in the States would be appointed by the High Court of the State. With the separation of judiciary, perhaps the last vestige of colonial rule in judicial administration has thus ended in India.

The Rajya Sabha, on February 19, referred the Foreign Contribution (Regulation) Bill, aimed at prohibiting acceptance of foreign contributions and hospitality by political parties and individuals, to a Joint Select Committee of both the Houses of Parliament.

The Committee will consist of 60 members—20 from the Rajya Sabha and 40 from the Lok Sabha. The Select Committee is expected to submit its report to the House in the first week of the next session of Parliament.

A division bench of the *Andhra Pradesh* High Court has ruled that under Section 344 of the Cr. P.C., a court had no power to remand an accused to police custody and that it could remand the accused only to judicial or jail custody.

Answering a reference made by a

judge of the High Court whether under the section a court could remand an accused to police custody, the bench said that giving a free and fair trial to persons accused of an offence was one of the cardinal principles of administration of justice in this country.

The Government of *Jammu & Kashmir* has constituted an 11-member Committee of officials and non-officials, under the chairmanship of the State's Law Minister to examine the existing laws and regulations to deal with adulteration, hoarding, profiteering and other economic offences and suggest suitable changes.

The Government of *West Bengal* appointed on June 10 a one-man Enquiry Commission to examine charges of corruption against ministers of the present Cabinet, including the Chief Minister. *Shri K. N. Wanchoo*, former Judge of the Supreme Court, has been entrusted with the responsibility of examining and reporting on corruption charges made against them in writing. The Commission has been constituted at the instance of the Chief Minister as a result of allegations made by some of the ruling party legislators against some of the ministers. The Commission is expected to submit its report in about two months' time.



## BOOK REVIEWS

*Rural Development Administration in India* by P.R. DUBHASHI, Popular Prakashan, Bombay, p. 342.

The volume under review consists of some of the select articles of the author on the different aspects of rural development administration in the country. Shri P.R. Dubhashi is well-known for his writings on matters relating to administration in its wider sense. In the present collection he bears to bring upon his approach his wide scholarship, administrative insight and innate sympathy for the broad theme of the book.

The opening chapter outlines the changing pattern of administrative trend in the country and provides the framework for discussion of the other aspects of the rural development administration. It provides a synoptic view of the prevailing situation and the problems as seem to emerge in this area. Shri Dubhashi thereafter goes to review the policy and programme of Community Development in the context of the federal system and the author concludes from his analysis that there has been "the reversal of unitary trends which were so powerfully operating" during the decade after the commencement of the programme. The articles devoted to the discussion of the philosophy, programme and progress of the movement of Community Development in the country are exceedingly relevant as they identify both the points of strength and weakness. While discussing it, there is not an iota of cynicism which, sometimes, association with the

details of the programme both in the field and staff positions is apt to generate. The author's approach is that of hopeful realism, and he so eloquently unfolds the manysided contribution that the movement contributed to the practice and discipline of public administration in the country.

The movement of the Community Development has furnished one of the principal strands in the evolution of development administration in the country—the other being the problem of industrial planning and project management. The author therefore goes to discuss the next stage in the evolving concept and institution of Community Development, viz., the Panchayati Raj and Development Administration. Besides analysing the overall implications and scope of democratic decentralisation—later renamed as Panchayati Raj by the late Prime Minister Nehru—the scheme as applied to Mysore (now Karnataka) by way of case study has been discussed. Shri Dubhashi also throws fresh light on the functional aspects, such as, Panchayat Committees, the problems of Panchayati Raj personnel and the role of the Block Development Officer with all its strains. The programmatic aspects like the agricultural extension, and cooperation as well as their integral relationship with the totality of rural development have also received the author's attention.



District administration has been recognised as the fulcrum of the planning process, even from the angle of area planning, despite the significance of regional planning. The Community Development programme and Panchayati Raj have left a distinct mark on the structural, institutional and interpersonal relationship and style of functioning in district administration. Shri Dubhashi has made a penetrating study of the new directions of district administration. The problem of coordination has always posed a difficult problem in the field of rural development because of new requirements and old traditions. The vital role, guidance, initiation and support that the District Officer (Collector) can play in the new emergent areas of administration has been convincingly analysed.

The training of public servants in a developing economy is one of the crucial issues in development

administration. Training effort has been recognised to be one of the critical factors for the success of planning and development. The various issues involved in the approach, objectives, follow-up, methodology, organisation, evaluation and other allied functions have been discussed in detail, not only in the light of the experience of Community Development and Panchayati Raj but in the broad context of development administration.

The volume contains a useful index. It has been reasonably priced and neatly printed. But some printing errors have crept in the book and could have been avoided by more rigorous proof reading. On the whole, it is a perceptive study not only of the rural development administration but of the changing facets of administrative change in the country.

— T.N. CHATURVEDI

*The Public Administrator (Special Number on District Planning Seminar)*, The Indian Institute of Public Administration, Maharashtra Regional Branch, June 1974.

The significance of District Planning has been emphasised from time to time. In spite of some work done in this area, anyone familiar with the literature on the subject will have no hesitation in making the point that the area merits exploration much more, both operationally and conceptually. The approach to Multi-level Planning has only served to underscore the importance of District Planning. It is rather in the fitness of things that the Maharashtra Regional Branch of IIPA should organise a seminar on District Planning during the Plan Week celebrations in November 1973. A discussion paper regarding the formulation of District Plans was prepared by the Planning Department of the

Government of Maharashtra. The seminar was inaugurated by the Chief Minister, Shri V.P. Naik. The participants in the seminar included businessmen, industrialists, public men, academicians, economists, government officers and eminent people belonging to many other walks of life. Besides the background paper referred to above, other articles were contributed by the participants. The volume under review is a collection of the papers and brief proceedings of the seminar which has been published as a special number of "The Public Administrator", the Journal of the Regional Branch.

The papers cover a very wide area in relation to the problems of District

Planning. The article on District Planning in Maharashtra by Prof. N.R. Inamdar was published earlier in this journal. The paper on 'Perspective Planning for Districts' by Shri P. K. P. Nair provides broad guidelines on the subject. Shri G.N. Alavandi also approaches some of the same problems from a different angle. Shri S.C. Sarkar attempts to lay down Ideological-Political Parameter of District Planning and raises many important issues, though one may not find oneself in agreement with all of his conclusions. In his paper on District Planning, Shri S.B. Sakhalkar has worked out a comprehensive framework, both conceptually and operationally, and will be found of particular interest. Similarly, in their paper, Shri M.A. Telang and Shri D.S. Kulkarni have formulated some consistency checks for purposes of the scrutinising of district plans which are of practical importance. Shri A.L. Ganeriwal raises some questions of plan formulation and implementation at district level. Shri B.N. Makhija has tried to focus attention on the Adivasi question and District Planning. Both the regulatory and welfare aspects of the question of the underprivileged groups or pockets have a 'live' relevance in planning at the district level. In another paper, Shri A.L. Ganeriwal has taken up for discussion the functioning of district planning boards and the involvement of and participation of non-official members. One will like to add that this

also raises the larger issue of people's participation in the planning process at the grass roots level.

The volume has a book review on the connected subject of Regional Planning. One would have liked to have a fuller paper on the subject and its relationship with district planning. The question of the State Planning Board — its composition, character and working — has also its direct relevance for district level planning. Probably some of these issues could have been covered in the seminar but for the constraint of time.

Some of the articles naturally have more of local orientation, while others have wider focus. The volume has also an excellent bibliography on Regional and District Planning. Though primarily intended for the members of the Maharashtra Regional Branch, this volume has wider interest both for the general public, students and people in State Governments associated with planning. The Editor of 'The Public Administrator' deserves our thanks for bringing out this useful number. Because of the wider interest in the theme of this volume, one can reasonably expect that with the assistance of the State Government of Maharashtra, it may be possible for the Regional Branch to publish it in the form of a book for wider circulation.

— T. N. CHATURVEDI

*National Interest* by JOSEPH FRANKEL, London, Pall Mall, 1970, p. 173.

This book has been published under the General Editorship of Leonard B. Schapiro as a part of series on 'Key Concepts' of political science. It deals with a very important and sensitive subject of 'national interest'. Scholars have burnt midnight oil in defining the 'national

interest' of foreign-and-defence policies of their countries. In this interdependent and interconnected world, every nation has to constantly define its 'national interest' in formulating its policies *vis a vis* other nations. In a way, it is correct to suggest that for the study of foreign-

and-defence policies of a nation, its national interest should be properly analysed and understood. If we make a realistic assessment of the present day world situation, we find that the imperialist countries try to impose their will and decisions on the Third World, and what goes under the label of 'national interest' of the poor and dependent countries is in fact imposed options of the powerful and militarily strong imperialist countries. A country having its material interest in 'peace' may not be able to achieve it. On the contrary, a country interested in peace may be involved in wars because the militarily powerful countries have decided in their 'national interest' to supply arms to a neighbouring country. It is a truism that the countries of Asia, Africa and Latin America have a vested interest in peace for their economic and social development. But the major wars of the last twenty years have been fought in these areas because the 'national interests' of the imperialist powers could be served only through war in these regions. Thus the important question, pregnant with great theoretical and analytical possibilities, is not the concept of 'national interest'; but the capabilities of the country to pursue its national interest. Nations of the world are divided on the basis of this 'capability' of some to effectively pursue their national interests, and the incapacity of the majority to achieve their national goals. With an unequal distribution of power among the nations of the world, the pertinent question is: How to pursue one's national interest? All other areas of study should flow from this fundamental recognition of world reality. Frankel knows this fact, but fails to draw proper implications from it. He writes:

'The greater the capabilities and

the higher the power status, the broader the scope of the national interest'.

He should have drawn significant theoretical perspectives from this basic formulation; but his background inhibits it. He fails to rise above his background, and thus ends up in writing an apology for the Anglo-American bloc. And all this is done in the garb of 'behavioural' study which he claims to undertake. His bias becomes clear from some of the statements mentioned here.

(a) "At present the relevance of capabilities is to some extent diminishing as nuclear deterrence puts major constraints upon the super-powers whereas the working of the international system accords unprecedented protection to small and weak states."

Ask some small states in the Third World, how much security they enjoy under the umbrella of the imperialist powers.

(b) "Thus it appears that foreign policy is generally pursued without any clear purpose. Most policies are reactive, following real or imagined stimuli from the environment; active foreign policy which positively pursues objectives based upon firmly held values, is much rarer."

Is it correct to analyse the foreign policies pursued by John Foster Dulles and Henry Kissinger in the light of this statement of Frankel? The world would be better if the imperialist countries were only passive in foreign affairs. Frankel is ignorant about the dynamics of power. A powerful country wants to achieve its defined goals actively and does not wait to react. It is

only the Third World which helplessly reacts to the already arrived at decisions in Washington, London, Paris, etc.

(c) "... governments play a much more exclusive role in its (foreign policy) formulation.... The individuals and the sub-groups are here generally more ignorant and powerless, and less directly concerned, than within the domestic context."

Is it a reality? The foreign policy making is subject to all kinds of domestic pressures of organized and powerful groups of influential industrialists. It can be suggested that a tug-of-war goes on between the government and the pressure groups in defining national interests, but to deny the role and influence of such groups in policy making is untrue.

The western writers on 'International Politics' are at pains to explain that the modern world is interdependent, and an international political system is emerging in which a linkage exists between the unit (country) and the environment. It is further suggested that the scholars should forget about sovereignty, national freedom and other out-of-date concepts like freedom of action in foreign affairs. Frankel also sells this falsehood when he writes:

"undoubtedly, under the impact of the recent changes in the international environment, this sovereignty, never complete in

the past, has been eroded and has been to a large and growing extent replaced by the interdependence of states."

The truth is that dependent countries belong to the Third World and sovereignty resides in the First World. Its proof has been given repeatedly in the sphere of international relations in the twentieth century. Sovereignty has not been eroded. It has got concentrated with a few powerful metropolis, who have developed as giants and are acting as policemen of the world; and, on their behalf, Frankel has written this book which is extremely biased and without any understanding of the world reality. Indian political scientists have depended for their intellectual ideas on the western scholars. A time has come when Frankel, Rosenau, Synder, Morgenthau, Sprout and a host of other western scholars are presented with a picture of world affairs with a new perspective based on hard facts of the Third World. An army of writers in the west, who are selling so called 'theories of international politics' are in reality indulging in a dangerous exercise of selling their country's policies in the garb of concepts like 'decision-making', 'communication', 'national interest', 'Systems Approach', etc. Scholars of the Third World must guard themselves against this danger, and books like that of Frankel must be critically examined.

—C. P. BHAMBHRI

*Comparative Politics* by J. C. JOHARI, Sterling Publishers (P) Ltd., New Delhi, 1972, p. 174, Rs. 21.50.

Comparative studies are essential for any meaningful social science generalizations. Abstractions of social and political reality must show their validity beyond territorial or

geographical boundaries; otherwise science of society cannot develop. A very ticklish issue in the study of comparative politics has been the appropriateness of various competing

theoretical frameworks for encompassing cross-cultural and cross-national studies. The American political scientists inspired by the writings of Max Weber and Talcott Parsons found "Structural functional approach" as an adequate framework for the study of comparative politics; and Almond and others started constructing taxonomic schema for comparing political systems and displaying the various possible and actual types of configurations of the systems. Under the impact of 'behavioural approach', the American political scientists extended comparative political studies to elite attitudes, pressure groups, party behaviour, etc. (Johari also follows the same schema of study). Thus in the contemporary period, comparative politics became interdisciplinary; and methodological rigours were employed to evolve empirical theory of political processes. As Gabriel Almond, the foremost scholar of comparative politics in the United States observes:

"Classical political theory is more a political sociology and psychology and a normative political theory than it is a theory of the political process. What goes on inside the black box of the political system and its consequences are inferred from the ways in which the social structure is represented in it. The Platonic, Aristotelian, and later Roman classifications of types of political systems are far more explicit on the consequences of varieties of social stratification and their representation in political systems for their forms and their performance than they are regarding the varieties of political decision-making processes. The bases of political classification are sociological rather than political.... The Greek

and Roman theory of political development is a social—psychological theory, treating the pure forms of rule (monarchy, aristocracy, or democracy) as inherently unstable because of their susceptibility to corruption stemming from sociological and psychological processes."<sup>1</sup>

Thus the concern of political scientists shifted from the mere explanation of political actions to the creation of empirically verifiable propositions derived from a theoretical system, limited to the variables, appropriate to the discipline.

The above intellectual debate in the United States has inspired Johari to summarise the major trends in comparative politics in seven chapters of his book. He discusses in detail the theory and practice of pressure groups and political parties in a comparative perspective. His definition of politics is that all political activity is 'pressure politics'. Johari writes, "In this direction, Duverger's criteria of party system are rather obsolete and one may say that now it is not the party system but the interest and the pressure groups that exhibit the true nature of a political culture". He further writes, "pressure groups have a very important role in a modern political system where the state is irrevocably wedded to the ideals of representative democracy and social welfare".

Having taken this fundamental position, Johari should have defended it with theoretical and empirical insights on the basis of actual working of the various political systems. Such an exercise would have added to the value of his book.

Johari's contribution is marred by two failings. First, he uncritically

<sup>1</sup> Gabriel A. Almond, "Political Theory and Political Science" in Ithiel de Sola Pool, ed., *Contemporary Political Science: Toward Empirical Theory*, New York, McGraw Hill, 1967, p. 5.



accepts the opinions of the various writers. For Johari, experience of the author is sufficient proof of the correctness of his opinions. Secondly, recent questioning of the basic postulates of American political science formulations find no mention in Johari's book. The dominant school of thought, *i.e.*, behaviouralism in politics, is being subjected to merciless criticism in the United States. As Richard Jensen observes: "Behaviorism in the style of Thurstone was, however, inadequate as a fundamental paradigm for a major social science. (Reference is to political science). Its conception of the scientific method was too narrow, especially in its failure to include systems approaches. Its choice of attitude as the fundamental unit

reflected a narrow approach to psychology and proved unsatisfactory to scholars who felt that power, role, socialization, value allocation, or communications, among other concepts, were claimants to the all-important title of political atom."<sup>2</sup>

David Easton had to recognize that 'behaviouralism' is proving an intellectual liability, and had to answer criticisms in his presidential address. Thus the dominant intellectual streams in the United States which inspired Johari to write this monograph are in a defensive position: one would have expected Johari to critically examine his basic formulations.

—C.P. BHAMBHRI

*Institution Building: A Source Book* by MELVIN G. BLASE, London, Sage Publications, 1973, p. 325.

There has been an increasing tendency amongst modern writers in various social sciences disciplines to evolve new concepts and approaches to explain various social, economic and political phenomena and the continuous changes taking place in societies in recent times. Some of these concepts are mere transplantation from one social science sub-discipline to another sub-discipline, while others have been borrowed from the physical and natural sciences and are adapted to the various fields of social sciences to denote identical processes or patterns of change and behaviour. In most cases such concepts either fail to explain the whole process fully or at best remain vague. The present book is an attempt towards explaining the concept of "Institution-Building", which defies any precise meaning, and also to familiarize those interested or invol-

ved in such an effort with the enormous literature that has come out in this field.

The idea of "Institution-Building", which has a pronounced bias toward social engineering, is based on the assumption that most significant contemporary changes—especially in developing countries—are deliberately planned and guided. The approach pre-supposes that the introduction of change takes place primarily in and through formal organizations. When these organizations are change-inducing, change-protecting, and formal, they are considered to be institutions. These organizations and the new patterns they foster become institutionalized, *e.g.*, meaningful and valued in the societies, in which they function. This involves a complex set of interactions

<sup>2</sup> Richard Jensen, "History and the Political Scientist", in Seymour Martin Lipset, ed., *Politics and the Social Sciences*, Oxford University Press, New York, 1969, p. 13.

between the institutions and the environment. The latter varies in its readiness or resistance to change both over time and from place to place. The results of analyses of these institutionalized changes can serve as guide to social action. Hence institution-building is assumed to be a generic process, and is defined by Esman *et. al.* as "... the planning, structuring, and guidance of new or reconstituted organizations, which (a) embody changes in values, functions, physical and/or social technologies, (b) establish, foster and protect normative relationship and action patterns, and (c) attain support and complementarity in the environment". [p. 264]. Institution-Building thus refers to the deliberate infusion of fundamentally different values, functions and technologies, requiring changes in the institution's doctrine, in its structural and behavioural patterns.

Although the Institution-Building concept and relevant models developed by Esman *et. al.* are widely accepted and have been found useful as an "orientation to the process of organisationally induced and protected social change", the concept is not without its limitations. The first limitation relates to the rationale of the field of institution-building itself. It stems from the bias that institutionalization is a positive process which is closely related to societal innovation. No matter how intentional this orientation may have been, it seems improper to equate institution-building entirely with innovation and positive change. This restriction could, among other things, draw attention away from the dysfunctional aspects of the process of institutionalization, which has been the object of attention in the literature of social sciences in general and in the modern organization theory, in particular. A second

limitation arises due to the tendency of the model to view the process of institution-building largely from the perspective of the institution under study, and from the omission of the role of individuals as linkages in the process or organizational institutionalization. Thus the goal of the institution-builder is not simply social change. Some change in social, economic and political relationships is likely to occur over time with or without their efforts. The aim of institution-builders might better be described as social control. By building institutions, persons should be better able to control the course of change and to accomplish desired changes within a shorter period of time than would otherwise be possible. Likewise, although the institution-building model provides helpful ways of looking at complex social phenomena, so far it has demonstrated little relevance to policy makers because of its limited predictive power. On the basis of his study of the public policy for sciences in India, Morehouse clearly demonstrates that the institution-building model, at its present age of refinement "is more analytically elegant than relevant to the real world of public policy". [p. 315]

Notwithstanding these limitations, the institution-building approach has been widely used by social scientists to analyse social and political changes in different societies, resulting in a proliferation of literature in this field. However, not many in the field are aware of its existence, as it is widely scattered and highly diffused and spreads over to many social science disciplines and sub-disciplines. Moreover, most of it still exists in manuscript or mimeographic form. Consequently, it has been used very poorly both by practitioners, who had been engaged in institution-building efforts, and



academicians, who sought to study and analyse such processes; the former, because they are not able to acquire readily copies of that with which they are acquainted and the latter because most of the scholars tend to write in discipline-oriented journals and their reading habits generally are focussed on their disciplines. They are thus unaware of and therefore do not make full use of relevant information found in disciplines, outside their own. The present work aims at fulfilling this void and has been designed to overcome the difficulties of both the practitioners and the academicians and to help exchange of institution-building literature between them.

The book is an excellent reference work for such literature. The author Melvin G. Blase, and the sponsors of the project, The Midwest Universities Consortium for International Activities Inc. (MUCIA) programme of Institution Development and Technical Assistance are to be commended for the effort they have put into bringing the vast amount of literature at one place for the attention of those interested in this field. The author has gleaned through significant, relevant concepts and research findings from psychology, anthropology, sociology, political science, economics, social psychology, management, agricultural economics, communications, rural sociology, business administration, and community development. The original listings with the MUCIA have been further supplemented through a questionnaire mailed to number of academicians and practitioners working in the area in many countries. The respondents (including one from India) and from varied disciplines were requested to suggest citations central to the institution-building literature, and asked to designate works they felt had made

significant contributions to the central literature, and to provide names and addresses of other professionals actively working in the institution-building field to whom they felt a similar questionnaire should be mailed. The source book is the result of such a painstaking effort on the part of the sponsors to cover as vast and varied an area as possible.

A brief description of the arrangement of the material in the book may perhaps be of some interest to the readers. The book consists of three parts. In the first part each article, paper, or book is summarized with emphasis on the conceptual framework of institution-building theory and methodology as they are related to developing countries and the process of providing them with technical assistance. Out of the three chapters in this part, the first is devoted to important contributions to the central institution-building literature. The manuscripts summarised here are further sub-divided into those that deal with micro and those that deal with macro phenomena. These are further categorized discipline-wise, like economics, psychology and sociology. Chapter 2 contains a threefold set of categories of manuscripts: (a) dealing with specific types of institutions in accord with the type of institution involved, (b) those reporting results of cross-sectional studies, and (c) all others which do not conveniently fall into the case or cross-national sub-divisions. The final chapter in the first part consists of citations to the supporting literature. The second part consisting of one chapter only deals with key concepts used in the manuscripts central to the institution-building literature, including model definitions and their deviations. The final part also of one chapter contains significant statements of

relationships among the concepts included in Part Two.

The book should be found highly useful both by the academicians and those involved in the institution-building activities. The arrangement of the material is such that the citations can be used even by a relatively diverse readership as a source of information from a heterogeneous literature. Of particular importance are the summaries of different concepts relating to institution-building in which an effort has been made to identify schools of thought associated with specific definitions of specific concepts. Not only the key concepts have been discussed in summary forms, but also the critique of these concepts have been summarised at appropriate place for the benefit of the readers along with citations for further references. To the extent that most of the literature mentioned here still remains unpublished and is available only in mimeographed/or manuscript form at some of the Centres for the Study of Institution-Building, the sponsors of the volume

have made arrangements to make some of these available to anyone who makes a request to the Director, MUCIA Program of Advanced Study in Institution Development and Technical Assistance Methodology, Indiana University, Bloomington, Indiana. However, the concept itself is so vague, extensive and elusive that despite the enormous pains taken by the author, a substantial portion of the literature, particularly relating to developing countries, which could be conveniently included in the field of institution-building, is bound to be inadvertently left out. Thus, for example, much of the work done in the field of Institution-Building in India and by Indian scholars does not find adequate mention in the book. But perhaps the responsibility for a similar venture to put it together lies elsewhere, and may itself be a subject of another complementary volume. However, the book as it is fully deserves a place on the reference shelves of all social science libraries.

—R. B. JAIN

*Elements of Agricultural Finance* by KATHURIA, G. AND CHANDRASEKHAR, K., Progressive Corporation (P) Ltd., Bombay, 1973, p. xiv + 244, Rs. 18.00.

Agrarian reforms have come to be so widely understood that relief from the crushing burden of indebtedness and provision of credit and finance in a manner conducive to raising agricultural productivity and improving the welfare of agriculturists are included in its ambit. It is in this spirit that the role of the State and public agencies in the field of agricultural finance has to be viewed. In a private enterprise economy, institutional finance is an essential part of business infrastructure. The pursuit of modernisation of Indian agriculture, therefore, necessitates the integration of

agricultural finance into the general framework of financial institutions. Insofar as our agriculture has to make a great deal of leeway both in the domain of its archaic, pre-capitalist production relations and backward and sticky productive forces, modern financial institutions like public sector commercial banks making ample provision of critical finance for agriculture are instrumental in breaking the inhibitive barriers on both the fronts.

It was some such perspective which was used for assigning a relatively high priority to agricultural

finance in the operations of public sector banks. Indicative of this change is the expansion of commercial bank credit to agriculture from Rs. 45 crores in June 1968 to almost Rs. 400 crores by March 1972. That this is more than mere quantitative phenomena can be witnessed from the vigorous and changed awareness about the problems of agricultural finance shown by the authors of the book under review who happen to be bank officials.

It is a book meant for those who are engaged in agricultural lending operations. It is written by authors with direct experience in dealing with lending to agriculturists and also with experience in training those who are to carry on these operations. The exercise is based on a number of explicit and/or implicit premises like the great importance of institutional finance to agriculture, suitability of commercial banks to undertake agricultural lending (as complementary to cooperative credit and in a bid to replace the traditional moneylender); importance of agronomic knowledge to bank functionaries and continued validity of traditional banking principles and criteria. Its chapters can be divided into the following three categories:

- (a) Those giving general environmental information about agriculture's importance, recent developments in this field, etc.
- (b) Those giving information about agricultural practices and techniques.
- (c) The chapters dealing with the questions of agricultural finance. These chapters constitute the core of the book.

As far as the first two groups of

chapters are concerned, one comment seems to be in order. The manner in which this knowledge will have bearing on lending operations and can be made use of by bank functionaries is *not* spelt out. One would have presumed that this is the main task of such a book; otherwise this knowledge is readily accessible to anyone caring for it.

Coming to the central theme of the book, it must be stated that it is not a usual, analytical book on problems of agricultural finance. It is written with a specific objective of providing operational guidance to bank officials in entertaining, processing and deciding proposals for credit from cultivators and for administering and recovering agricultural loans. The credit needs of the farmers, various types of loans required by them, some typical farm investment schemes and some special and specialised loaning operations as well as problems of supervision and follow-up of agricultural advances, recovery problems, documentation and mortgaging problems and how to impart training on these problems have been discussed. Apart from marshalling a wealth of information, a large number of case studies are presented to illustrate the issues raised. A perceptive reader can really make good use of the fare provided by the authors.

The role envisaged by the authors for commercial banks in financing agriculture through crop loans and term loans remains uncritically conventional and dysfunctional. When they say, "The provision of credit to agricultural sector should be on the basis of considerations and should not be treated as a welfare activity". Thus either the statement in which the authors blandly contrast "considerations" against "welfare" amounts to a monogamous marriage to commercialism or is a sheer triviality. The

question is: what considerations and how are the chosen considerations opposed to welfare? Is welfare synonymous with outright cash grants? A confusion concerning social *versus* private considerations seems to form the basis for these formulations. This becomes clear when the authors differentiate between four categories of farmers, *viz.*, viable, potentially viable, marginal and subsistence. It is implied that the first two categories may be accepted for lending. There is a clear stipulation against crop loans to marginal and subsistence farmers (p. 65). It is argued that "the grant of a crop loan to a subsistence farmer who is about to abandon his farm might result in misapplication of the crop loan and a recovery problem" (p. 57). A little further, it is reported that "In India, the short-term production-oriented credit needs of the small farmer get priority over those of large farmers because the bulk of farms in India are small and the needs of the small farmer are more critical for investment in the adoption of new technology" (p. 64). Thus the reader is not at all clear as to what the authors are suggesting. It looks as though the approach of looking at banks' operations from a narrow, banker *qua* banker angle without consideration of complicated issues of social calculus (providing the rationale for public sector banking) leads the authors to espousing the cause of agricultural development without redefining the role and objectives of banks. It appears as if they want to have the cake and eat it too!

The same basic approach makes the authors stipulate security and collateral requirements which will virtually turn the public sector banks into modern, institutional *mahajans*. The authors quote with approval a report which suggests that farmers

who have no or restricted rights of alienation in their lands should be vested with these rights in favour of banks, that enactments on money lending regulation and debt relief should exclude commercial banks from their purview, that to save the banks the trouble of protracted litigation in civil courts, the State should empower an official to issue an order having the effect of a civil court decree, permitting sale of property charged to a bank and should permit banks to purchase and hold land even in excess of the ceiling limits on land holdings. In brief, for the favour of lending to farmers, the banks should be placed above the law of the land and the borrowing farmers (not only defaulters, because potentially any borrower could be a defaulter) should be placed at the mercy of their benefactor banks! That such effects as reduction in the area cultivated, fall in output, and increase in unemployment consequent upon attachment of lands belonging to defaulting farmers do not even suggest themselves to the practical bankers speaks of their *neo-mahajan* approach to agricultural finance.

The authors, as practical persons, come upon many important problems. For instance, our agriculturists continue to depend on loans from moneylenders at various rates of interest. One major reason for it is that given the precarious state of the farm sector, often enough the loans are secured for consumption purposes. Leaving aside loans for marriage and festivals, these loans are for enabling the farmers to tide over lean years. Hence, though these loans are for consumption purposes, they cannot be substantively called "unproductive." Our authors, at one place, suggest that, "Although it may be difficult at this stage to grant finance for consumption purposes

also to the farmers, in the long-run, it will be necessary to give advances for such expenditures as these cannot altogether be ignored, as it cannot be said that the farmers should not have marriages in their families or festivals" (p. 49). But when they move on to discuss "eligibility" for crop loans, they suggest that if by obtaining bank loans, the farmer is enabled to divert his own resources to unproductive expenditure, it does not make him eligible for crop loans (p. 63). Such contradictions in their approach originate from the absence of social criteria which are to guide bank lending.

The question of recovery is normally exaggerated because of the special nature of agriculture. However, it should be realised that defaults may be due mainly to the fact that crop-loans from banks do not represent a stable long-term relationship between the banks and the farmers as it does in the organised sectors of trade and industry. If a farmer knows that failure to repay one year may mean blocking a source for future working capital needs, the defaults would be discouraged to a greater extent than by many other

deterrents. Moreover, the lack of insurance facilities in agriculture against unavoidable factors (unlike in commerce and industry) aggravates the default problem.

The case studies on various problems make the study useful. However, the operational rules and methods of dealing with them are not indicated, let alone discussed. It is not always clear whether a particular case is a real one or a hypothetical one. Similarly, a lot of facts and tables are presented without disclosing their source. The training programme and syllabi do not include the tools of analysis and decision-making developed and applied by financial and management sciences which are of use in decision-making in banking enterprises.

In sum, it is a book in an area of immense practical significance, and presents a lot of information and interesting ideas. Being an early work in the field, it has some obvious handicaps to contend with. It may be hoped that more work is stimulated in this area.

—KAMAL NAYAN KABRA

*Management of Scientific Research*, Edited by JITENDRA SINGH, Popular Prakashan, Bombay, p. ix+311, Rs. 50.

It is often difficult to review a book of this nature which covers a wide area and brings together papers of a large number of contributors, most of them covering things said and written about before.

The Seminar, on Management of Scientific Research, organised jointly by the Administrative Staff College and the Committee on Science and Technology, however, represents a landmark in the evolution of science management in the country. The

reason for its being so is not that something original or profound was said at the Seminar, but in the fact that it represents one of the many efforts made in the transition from personalised management to professional management. The effort was not conceived as an academic effort but was borne out of the very acute conflict in CSIR at the time. The major conflict in CSIR and the nature of struggle there had posed, amongst others, two problems:

1. What should be the nature of



decision-making machinery; what should be the role of scientists and technical workers involved at different levels?

2. How should the functioning of Scientific Institutions and research and professional workers be judged or evaluated?

It was in the context of the conflict and struggle centred around these problems, that the Seminar was conceived, planned and organised, by people who should remain, as it often happens in history, anonymous. The objective of the Seminar, as it was conceived, was to bring together scientists from a large number of institutions and make a determined effort to discard the much discredited yet strongly entrenched hierarchical system, with a highly subjective and personalised decision-making system. The latter strangled creativity and either reduced highly talented workers to mere yes men of people in power, totally frustrated them or drove them out of the country. In the context of the twin problems, which are still with us, in slightly different forms with the additional distortions, one would have expected that amongst various issues, the functioning of various agencies and research departments would be compared and lessons drawn. Some reflection of this is found in the highly idealised picture of Atomic Energy Commission with implicit comparisons with other agencies. Some of the major and oldest research organisations like ICMR, ICAR are barely touched upon.

Major limitation of the treatment of the theme, in the papers at the Seminar, arises from the separation of scientific activity from its social background. This limitation is reflected

in many ways, such as the complete neglect of the social situation in the country, implicit acceptance of the special status of scientists requiring special treatment, acceptance of their elite position without any reference to their obligations to society and their responsibilities, in the context of their position and status towards social demands and needs, or the treatment of the subject in a manner which is common in multi-national corporations, where human beings exist for the purposes of manipulation and exploitation.

The role of scientists and technologists in any society is circumscribed by the social and political objectives of the society and the management practices are developed to further these objectives. In a society where major R & D effort is spent on war and the character of human relationship is based on exploitation of man by man for purposes of profit, the management practices are likely to be different from those where R & D effort is to further human cooperative endeavour for purposes of reconstruction of society and for purposes of peace.

Since the Seminar was organised, basic changes have taken place both nationally and internationally in the field of science as well as in socioeconomic conditions. The euphoria for science has evaporated and serious questions like: Science for whose benefit? at what price? and with what consequences? are being asked by serious students of science. There is a debate going on in our country itself, as to whether the infrastructure and framework of science and technology, developed so far, is relevant to the needs of the country? Would it bring us near to our social and political objectives? Is it helping us to bridge or is it

widening the gap between the advanced countries and the less developed countries on the one hand and the rich and poor on the other? What sort of societies has it helped to build?

In the advanced countries there is an increasingly strong realisation that science and technology have been used irrationally with total disregard and to the detriment of societies and man. It has been built to help a technocratic society which is not only artificial but highly fragile and potentially catastrophic in that its breakdown would threaten the lives of millions of people. The recent oil crisis has brought it home to many.

It would, therefore, be worth-

while to read this book in the context of what has happened since then, and see where our appreciation 4 years ago was limited, which of the assumptions were not tenable and where we went wrong.

It may also be useful in this context, not to remain content with many of the recommendations which emerged as a result of deliberations and discussions and their implementation, but to seriously examine which of them are really valid and examine the spirit and the manner of their implementation. If it is done, it would be another landmark in the evolution of management of science in India.

— A. RAHMAN

*State Finances in India : A Case Study of Rajasthan*, by L. S. PORWAL, Sultan Chand & Sons, Delhi, p. 237, Rs. 25.

This book is a welcome addition to the now growing literature on the subject of State finances in India. Studies of public finances have so far paid attention largely to the Central Government. It is true that Central Government finances and policy have a pervading influence on the economy. However, State finances are increasingly occupying an important place in the total budgetary activities of the country. Of the total expenditure on revenue account of Rs. 9318 crores of the Central and State Governments in 1972-73 (RE), the States accounted for Rs. 4782 crores, or slightly more than half. Similarly, of the total capital outlay of Rs. 1797 crores in the same year, the States were responsible for Rs. 862 crores, or nearly half. About half of the total Plan expenditure of the country is now on account of State Plans.

The manner in which Central assistance to the States for their Plans was determined before the Fourth Plan ensured that the money was not used in the most efficient way by the States but in accordance with the priorities enforced by Central assistance. The system of Central assistance also resulted in the poorer States suffering in comparison with the richer States.

Thus, the power of the States, specially that of the poorer States, to make the best use of their resources was limited. Even apart from this, however, most States did not make the fullest use of their revenue potentials or of their resources whether for Plan or non-Plan purposes. Studies of the finances of State Governments are thus of great importance.



In addition to the usual problems of State finances, Rajasthan had the additional problem of integrating the confused and chaotic finances of the different Princely States which merged together to form the State of Rajasthan. Dr. Porwal gives an account of how the finances of 10 Princely States and two Chiefships were integrated together after the State was formed.

The later history of the finances of Rajasthan is similar in substance to the financial history of the other States of the Union. Dr. Porwal has examined the budgetary system of Rajasthan, the financial trends in the State, the pattern of revenue and expenditure and the indebtedness of the State Government. The financial administration of the State has also been studied.

The dependence of the State on financial assistance from the Centre has progressively increased over the years. Deficit on revenue account has characterised Rajasthan's finances during the last decade. Though, with the emergence of commercial taxes, the State tax structure is now more broad-based, diversified and elastic than it was at the time of integration, yet there is considerable scope for greater tax effort. The author has made a number of suggestions for improvements in the pattern of taxation. According to him, the emphasis should shift from indirect taxes to direct taxes. This is easier said than done, however. Most States, including Rajasthan, have hardly any choice except to depend on sales taxation as their primary source of revenue. Dr. Porwal's suggestion is to overhaul the land revenue system and make it more progressive by the introduction of a graded levy. But, though Dr. Porwal has not mentioned it, the incidence of land revenue in different parts of

the State must vary, at least to some extent, because of the different heritages from different Princely States. A graded levy will simply perpetuate these differences. In Rajasthan, even more than in other States, there is a case for introducing the Agricultural Holdings Tax recommended by the Raj Committee. Irrigation rates should be enhanced. A betterment levy has also been suggested for land commanded by large and medium irrigation projects, the bulk of the proceeds of which should be re-invested in irrigation development by crediting the proceeds to a separate State Agriculture Development Fund; this may also reduce the opposition to the levy. Net sale proceeds of land in the areas commanded by large and medium irrigation projects should also be credited to the State Agriculture Development Fund.

Dr. Porwal has laid considerable stress on increasing the efficiency of public sector enterprises and raising their contribution to the State exchequer. Similarly, he sees a potential for revenue in forests and forest produce.

The author has put in a plea for an increase in the share of the State in the divisible pool of Central taxes, and has also suggested that the corporation tax and the surcharge on income tax should be made divisible.

The former plea is made to each Finance Commission by all States on one ground or another. As regards the second suggestion, however, the time has probably arrived when it should be seriously considered, in order to put States' finances on a firmer footing.

Turning to expenditure, Dr. Porwal suggests some re-allocations

in the light of what according to him are the real priorities of the State. He thinks that at least 1/5th of the State revenue should be utilised for the development of agriculture which contributes about 50 per cent of the total State income. Proportionate allocations to different heads is hardly a rational approach, however, and may even be a dangerous one if the principle is extended to other heads too. (Dr. Porwal has made similar suggestions for education). The State Agriculture Development Fund (to which a portion of the land revenue, the proceeds of the betterment levy and the sale proceeds of agricultural land would go) would be an important instrument for the development of agriculture and animal husbandry. A portion of this fund may be earmarked for local authorities.

Dr. Porwal has devoted a great deal of attention to financial administration in Rajasthan. He has made an extensive study of the reports of the Public Accounts Committee and the Estimates Committee of the State. His study leads him to the conclusion that financial administration in the State is very weak. He finds that there is an increase in the idle investment of government funds, faulty planning, inordinate delay in accepting tenders, embezzlement of government money, neglect of normal checks and safeguards—all indicative of ineffective government control over public spending. He has quoted numerous instances from various reports of the Public Accounts

Committee illustrating these deficiencies and has suggested certain changes. He finds that legislative control over State finances, specially with regard to public spending, is nominal. The deliberations of the Public Accounts Committee have had very little impact on government spending. The proceedings of the Estimates Committee have also met with the same fate. He finds that even senior officers very often ignore the mandatory instructions and serious irregularities and lapses continue unabated in spite of repeated warnings by the Auditor General in his audit reports. As a consequence, he concludes, financial discipline has deteriorated in recent years.

The study comes to the conclusion that the finances of the State are inefficiently and ineffectively managed. This is partly due, of course, to the very character of State finances built in the Constitution itself. But it is also the result of ineffective and insufficient policy planning and administration at the State level. One wishes, however, that Dr. Porwal had made a more critical examination and suggested the kinds of changes which could bring about an improvement in the structure of State finances and a better allocation of funds for both development and non-development purposes.

All in all, the study is a useful one. There is need for similar studies of the finances of other State Governments as well.

—P. C. MATHUR

*Public Finance, Planning and Economic Development: Essays in Honour of Ursula Hicks*; Edited by WILFRED L. DAVID, London, Macmillan, 1973, p. xvi + 349, £7.00.

As the sub-title indicates, the volume is a *festschrift* in honour of Lady Ursula Hicks contributed by

her former students and colleagues spread over all the five continents and mainly from the Commonwealth

countries. A sad omission is a paper by her teacher-colleague-husband, Sir John Hicks, the 1972 Nobel Laureate in Economics, with whom she collaborated on five books and two official reports in Nigeria and Jamaica.

The first three papers dealing with cost-benefit analysis, theory of public goods and tax classification are qualitatively much superior to the rest in terms of clarity of ideas and analytical rigour. However, as Lady Hicks' interest has always been on the applied side of public finance, the collection reflects this bias and deals with development finance, federal finance, budgeting and local finance. In the development finance category, the papers on Nigeria, Kenya, Japan and Ceylon examine particular dimensions quite comprehensively. The two papers on federal finance complement each other—one is a country paper on Malaya, while the other is a compa-

rative essay on the new federations. The paper on budgetary classification attempts to integrate the economic, management and accountability functions of the budget and advocates computerisation of detailed information. The paper on local finance in Guyana is primarily concerned with the organisational aspects.

Topics dear to Lady Hicks that are not covered include tax economics, financial control, educational finance and urban finance. The volume contains an introductory chapter on Lady Hicks' career, a select bibliography, a list of her works, bio-data of the contributors and an index. As it stands, it provides ample feast for students of public finance, even when they are effectively priced out in the absence of a cheaper edition.

—ABHIJIT DATTA

*A China Passage*, BY JOHN KENNETH GALBRAITH, Vikas Publishing House Pvt. Ltd., 1973 p. 143, Rs. 36.

'In the autumn of 1972, John Kenneth Galbraith, in company with his two predecessors—Presidents of the American Economic Association, Professors Wassily Liontief of Harvard and James Tobin of Yale, was invited to visit China. The purpose: a privileged view of the Chinese Economy. The results are in the book.' The book is not only a study of Chinese economic system but a complete account of whatever Galbraith saw during his visit to China like the Great Wall and the Royal palaces. In his foreword, he rightly says 'I emphasize that this is a visitor's view of China, I am not a Chinese expert'. Even if Galbraith confesses that what he or his team learnt about China has already been learnt, the book makes fascinating

reading, specially for us Indians. It provides an opportunity to compare our progress with that of the Chinese people. For Galbraith knows India. He has made passing references to India to enable comparisons.

The map showing India-China boundary is not authentic and so a rubber stamp mark on the map says. Otherwise, the get-up is excellent with the front jacket photograph of People's Liberation Army men on the Great Wall. Galbraith has profusely praised the hospitality of the Chinese. The tea-drinking and cigarette-smoking habits of the Chinese have also struck him. He has given a day-to-day account of his visit to various places and finally

rounded up the book with his assessment of the Chinese economy which is not intricate or complicated for a lay man to appreciate. And it is quite brief.

The anonymity of the heads at various institutions designated as the principal responsible person is a point worth noting. The dignity of labour has been extolled to make everybody work though monetary incentive remains a factor. Employment has been generated by engaging people even in pursuits like cleaning the streets and preserving historical monuments and growing trees.

Though they entertained Galbraith with luxurious food, the consumer goods basically needed for the people are being attempted to be produced in large quantities and luxury good are hardly manufactured. The price level has been kept in check and income disparities between the highest paid and the lowest paid is not much. In India perhaps too much emphasis on production of capital goods and little control on production of luxury goods have created the present predicament. Perhaps we can now also learn from the Chinese experience without following their political system. There is visual evidence of success. But no figures were made available to the author. 'Frank Coe and Sol Adler, as I have mentioned, guess that the rate of expansion in Chinese Industrial and Agricultural output is now between 10 and 11 per cent annually.'

However, he says that in the agricultural sector with its instrument of production called 'People's Commune', productivity is low because of lack of mechanisation and lack of use of chemical fertilisers. The surplus of industrial profit is diver-

ted to take care of people working in agriculture. The economic system is highly organised and everyone's food and clothing has been taken care of. Galbraith's comment is worth quoting here. 'There has been too much snobbish comment about the uniformity of Chinese clothing. General appearance is better, as noted, than an American campus, but that is not the point. In a poor country an arrangement by which every person gets two sets of sound basic garments every year at low prices seems to me an exercise in the greatest good sense. The proper comparison of the comfortably clad Chinese is not with Americans or Europeans but with huddled and half clothed people of Northern or upland India in the winter months'. The other basic physical needs like medical aid and housing are also being attended to.

At the same time, this highly organised Chinese system 'does strike me as better adopted to its particular circumstances—more flexible, practical and dynamic and with astonishingly more successful protection of equality—than that of the socialist-cum-communist states of the West'. Two pairs of dresses for everyone is illustrative of this protection of equality. And also employment for everybody in one pursuit or other is assured. Flexibility is reflected in changing the market price even on the same day more than once depending on arrival of more or less goods in the market like vegetables, etc. Again 'much emphasis is placed on the flow of recommendations up from the plants and workers. Good plans are not made by a handful of people shut up in (a) room'. Thus, when organisation and the officers class showed tendency of hardening and turning into a privileged class, the cultural revolution attacked this tendency.

We may really learn how to fight unemployment of a ricardian, recurrent and disguised nature from the Chinese experience. Our intermediate technologies like khadi and village industries can be profitably utilised in this direction.

As Galbraith has rightly observed, one does not get any impression about the kind of planning organisation that exists at various levels. Galbraith has also not said anything about the reaction of the people to this system which again is hard to judge because of the political atmosphere in which they are living. He has not said anything about military expenditure as he has stated that it is a touchy problem

to talk about.

On the whole, the book makes interesting reading. It is a friendly personal impression of a reputed economist of our times on how the most populous nation in the world is making vigorous efforts to achieve industrial and agricultural prosperity. As a neighbour of China, we must be aware of her. And that is why the book is worth going through. There are humorous incidents also like Galbraith squeezing his full length to two cots and eating bellyful and then being confronted with the next course more delicious than the earlier!

—P.K. DAS

*Administrative Change*, Vol. 2, No. 1, EDITOR-IN-CHIEF : B. MEHTA, EDITOR: RAMESH K. ARORA, Jaipur.

This is the third number of a new journal being brought out by enterprising savants of Public Administration. It is a bi-annual journal devoted to the problems of administrative innovation, development administration and the general area of administrative reforms in government and business. It focuses on administrative processes in the context of changing socio-political and economic environment in which complex organisations operate. It carries contributions from political leaders, business entrepreneurs, civil servants, managerial executives, and academicians, thus facilitating an interaction of views between the practitioners and teacher-researchers of administration. It publishes conceptual and empirical studies as well as articles bearing an instrumental perspective

and having relevance to India and other developing countries.

We have very great pleasure in welcoming this new journal to our ranks. Apart from Shri B. Mehta, a very experienced administrator who is the Editor-in-Chief, the Editorial Board consists of eminent administrators like Shri T. N. Chaturvedi and Shri R. P. Padhi and eminent professors of the academic field like Prof. Ziauddin Khan, Prof. Daya Krishna, Prof. Rajni Kothari, Prof. A. B. Mathur, and Prof. M. V. Mathur.

The present issue carries a number of interesting and useful articles and we hope that the new journal will continue to maintain the high standard it has set itself.

—K. VENKATARAMAN

## Editorial

ONE of the important aspects of the management of the economy relates to the administration of industrial policy. The policy in this area is conditioned by the basic ideals as enshrined in our Constitution. The changing horizons reflect the requirements and imperatives of the planning process. The present issue of our Journal has the administration of industrial policy as its broad theme. It has many facets. It raises a number of problems and gives rise to agencies and organisations to satisfy the procedural requirements and to implement the substantive programmes. It has been our endeavour to include and discuss as many aspects, as possible, of this wide and complex area of public policy.

In a democratic society, the promotion of entrepreneurship constitutes the crux of the problem of industrial development. The diffusion of entrepreneurship becomes all the more important in the framework of socio-economic policy at a particular stage of development. Shri R. S. Bhatt in his contribution analyses the issues involved and the steps needed for policy of promoting entrepreneurship in small and medium sectors of the economy so as to build up a sound and integrated industrial structure. Brigadier Shahaney deals with DGTD, its organisation and role in his article. DGTD has to perform important regulatory as well as promotional functions. Shri Bhandari describes the logic and rationale for the control of Capital Issues in Industry so as to ensure a sound and scientific capital structure. The nature of ownership, regulation and dilution of capital investment in Industry has direct relevance to the fundamentals of our economic policy. Justice Nain analyses in his article the functions and purposes for which the Monopolies Commission has been set up. The experience of its working has important implications for the future of the industrial



development in the country. One of the most important factors in industrialisation of a developing country is the role which banks have to play in making the necessary finances available for the changing requirements of industry. The problem of the control of industry by the Government poses a number of issues. Shri N. K. Sengupta attempts to analyse the delays and inadequacies involved in the operation of the mechanism of control and has drawn our attention to the experience of certain other countries in this regard. Dr. Bhambhri feels that the measures adopted by the Government have not achieved the goal of preventing the concentration of economic power and suggests that more radical measures ought to be taken to curb these monopolistic tendencies. Shri Venkatachalam's article on Development Banking deals with the role of the various agencies set up by the Government for this purpose, and discusses the manner in which they have been instrumental in providing developmental finance in consonance with the objectives of the Government laid down from time to time. Miss Ramesh in an informative article discusses the role of the State Development Banks. Taking up one particular institution, she indicates general trends and experience. Shri Hebbalkar analyses some of the basic problems facing us in the sphere of finance for industry and the manner in which Government is tackling the problems through the institutions that it has set up for this purpose. Shri Sodhia deals with the question of Indian investment overseas and identifies the prospects of development in the field. The effort towards setting up of joint ventures abroad bears testimony to the growing industrial maturity of the country. The contribution by Shri Chaturvedi relating to foreign investment and collaborations in the background of our industrial policy highlights some of the issues as are prone to arise, and discusses the role of the promotional agency with the changing perspectives of that policy.

The question of the availability of technical know-how and the transfer of technology along with the need for promotion of Research and Development (R & D) are very relevant for the modernisation and diversification of the industrial base of the country. Shri Chitale analyses the basic issues involved in our trying to achieve technological independence. Shri Jain discusses the role of consultancy agencies in industrial advance. The problem of technical know-how and the availability of consultancy services have a vital bearing not only on the tempo and direction of industrial development but the totality of the planning process and even the educational policy and programmes in the country. Prof. Goyal's article deals with management



and labour relations in industry and suggests the ways in which these could be improved in the national interest. The maintenance of harmonious relations in this field is conducive to industrial production, both for internal consumption as well as for export with a view to earn foreign exchange to sustain a programme of planned development. The requirements of social justice and progressive labour relations have to be reconciled with the compulsions of increased output in an economy of scarcity. Shri Hooja and Shri Sethi in their joint article have surveyed the planning for industrial development in Rajasthan as a case study. The problems that the States face in undertaking programmes of industrial development merit closer attention. In a broad survey of industrial policy, Shri Birla presents a viewpoint on the perspectives and constraints of industrial policy, and makes a plea for certain changes, which according to him will help to accelerate the growth of industry in the country. Shri Mohit Sen, in his stimulating contribution, makes a critical analysis, from a different angle, of the strategy to be adopted to promote industrialisation in the country, and suggests another line of action.

We have also added a select bibliography by Shri I. R. Kumar which will be found of interest to those interested in identifying further references for purposes of study and research. We are aware that certain facets of the industrial policy and programmes remain to be covered. We are hopeful that it will be possible for us to take up some of these problems in subsequent issues. We will be grateful for further suggestions from our readers in this regard. We are indeed highly indebted to the eminent experts who have responded to our invitation by sending their contributions. Our effort all along has been to give adequate coverage to various viewpoints and schools of thought. We will gladly welcome the reactions and comments of our readers regarding the views and ideas expressed by the contributors in this issue of our Journal.

We believe that by bringing out this Special Number on Administration of Industrial Policy, the Indian Journal of Public Administration has made a modest but probably a pioneering effort in dealing with an important area of national development.

*EDITOR*



# THE INDIAN JOURNAL OF PUBLIC ADMINISTRATION

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## GROWTH OF ENTREPRENEURSHIP IN SMALL AND MEDIUM SECTORS

*R. S. Bhatt*

**G**ROWTH of entrepreneurship in a social organisation is a highly complex process. It is the result of interaction of various factors, including natural endowments, historical tradition, educational and cultural standards, social stratification, religious and moral values, family organisation, social cohesion and economic development at any given period of time. Entrepreneur is among the class of leaders in a community. An entrepreneur can generally be defined as anyone who lays out funds and takes risks in business. He belongs to a category of people who are prepared to earn residual income after paying for cost of operations as against those who desire guaranteed income by way of salary or fixed remuneration. Schumpeter attributes 'innovation' as the defining character of an entrepreneur. According to him, an entrepreneur has three inter-related functions: (i) perception of the opportunity based on innovation, (ii) promotion of business organisations capable of embodying the innovation, and (iii) running the business as a going concern. (The term innovation is to be understood in its widest sense, involving decisions relating to technology, organisation, selling and marketing, research, coordination of production inputs, etc.).

A distinction is conventionally made between an entrepreneur who has an innovation and a manager who carries out day-to-day work of an enterprise. This view of the entrepreneurship has been formulated largely in the context of developed countries and their experience of economic development. The concept of an entrepreneur who changes basic technological conditions of an economy has not so far been relevant to India.

Entrepreneurship in India may mean 'anyone or a combination of: industrial development, innovational efforts on the part of individuals or corporations relating to a product, organisation or market, rise in mobility of certain castes or communities in relation to business activities or entry of venturesome capital in an altogether new line.... It may also include the industrial and business decisions and activities of certain castes, communities or families. Again, with reference to small and medium scale industries, it might connote the starting of a small industrial unit on the part of an individual breaking away from the traditional base of his economic activity.'<sup>1</sup>

In most developing countries like India, Government itself has assumed entrepreneurial functions by undertaking a large public investment programme and creating infrastructure in the form of supplying communication, power, water, etc. Most of the small and medium entrepreneurs combine in themselves the entrepreneurial and managerial functions. In India, the functions of private entrepreneurs are largely conditioned by Government policies on the role of the private sector in the plan of development. There are two other circumstances which introduce different dimensions in the task of entrepreneurs; these are: (a) a sheltered market in India, and (b) the stock of technology which can be bought from the developed countries. In the context of Indian conditions, the essential characteristics of an entrepreneur may be described as perseverance in the face of uncertainty, capacity to take calculated risks, quality of perception of opportunities and the ability to seize them, a close familiarity with the deep interest in the concerned fields and the capability to harness and combine resources.

#### GROWTH OF INDIAN ENTREPRENEURSHIP

In the pre-colonial period, there existed a high order of entrepreneurship in India which produced goods of finest workmanship, viz., textile fabrics and handicrafts. With the change from the domestic system of production into workshop system or factory type of production in the initial period of the colonial rule (later half of the 19th century), the earliest entrepreneurs who came on the scene belonged to British family firms. In this period, the Indian merchants and traders became the agents of British firms to explore markets for imported goods. For the first time, Indian entrepreneurs set up textile mills in Ahmedabad, Bombay and Nagpur despite opposition from the British business interests. The Indian Managing Agency System evolved on the pattern of British Managing Agency houses played a great role in performing the entrepreneurial function.

<sup>1</sup> H. N. Pathak, "Growth of Entrepreneurship since Independence", *The Industrial Development of India, Policy and Problems*, edited by C. N. Vakil; and also N. K. Sengupta, *Corporate Management in India* (Chapter XI).

The Indian business houses, primarily Parsees, Gujaratis and Marwaris showed a remarkable degree of entrepreneurship, sometimes breaking new grounds.<sup>2</sup> J.N. Tata, the first great entrepreneur of modern times,<sup>3</sup> had the vision to establish the Tata Iron and Steel Company in 1907. The Tata Family established more enterprises in the 1930s. After the first World War, Walchand Hirachand was one of the most prominent entrepreneurs who set up sugar industry in Maharashtra. Shipping was started by Narottam Morarjee and Walchand Hirachand. The British Managing Agency houses were responsible for establishing traditional type of engineering units. After the war, the Indian firms engaged in production of consumer goods became enormously wealthy as inflation enabled them to make huge profits.

Since Independence, the investment opportunities and facilities like the infrastructure facilities have, under the plans, unfolded a wide vista for entrepreneurial development. In addition, the public sector enterprises which established highly capital-intensive industries producing vital raw materials opened up new avenues for entrepreneurship in the private sector. The Industrial Policy Resolution, which accorded an important segment for manufacturing activities in the private sector, also gave a direction to the entrepreneurial abilities. Indian entrepreneurs, therefore, have opportunities both on the demand side as well as the supply side because of the huge sheltered domestic market and practically virgin field in industry. Government's policy of inviting foreign capital to establish joint ventures gave a fresh impetus to entrepreneurial activities in India, because this filled not only the technological gap but provided valuable foreign exchange for import of plant and equipment. The contribution to equity capital and loans from foreign sources also helped in financing the cost of the project. Since 1957 up to June 1974, nearly 4500 foreign collaborations have been approved by the Government. In the upsurge in 1956-62, a number of enterprises doubled their productive capacities. Many medium-sized industrial concerns came into being in 1956-65 and some new enterprises entered the ranks of industrialists.

The import-substitution policy of the Government and the incentives provided have also greatly contributed to the growth of entrepreneurship. Early in the war years in 1939-45 when imports of components and parts were not available, the Panchals of Gujarat and the Lohars in Maharashtra produced textile components for mills in Ahmedabad and parts for diesel engines used in sugar industry in Kolhapur. Some small industrial units in the engineering industry had also cropped up in Howrah in West Bengal. This was only the beginning. Since the foreign exchange crisis of 1957-58 Government have pursued a policy of strict and vigilant import control and

<sup>2</sup> N. K. Sengupta, *Corporate Management in India*, p. 175.

<sup>3</sup> *ibid*, chapter xii.

have fostered the growth of import-substitution industries. A large number of industries ranging from machine-building components and machine tools units to petro-chemical industries have been set up with great advantage to the growth of the economy.

A mention may also be made of the recently passed Foreign Exchange Regulation Act, 1973 (which came into force from 1st January, 1974) under which the existing subsidiaries of foreign companies and branches of foreign companies and Indian companies with foreign shareholdings exceeding 40 per cent are called upon to diversify their activities in terms of 'Core Industries' important to the economy.

#### GROWTH OF SMALL AND MEDIUM ENTREPRENEURS<sup>4</sup>

The Government of India constituted a committee<sup>5</sup> in March 1973 to formulate specific recommendations designed to promote the growth of small and medium entrepreneurs. The Committee had submitted its Report in October 1973 and now the principal recommendations of the Committee have been accepted by the Government. Based on the report of the Committee, the following paras bring out briefly the position in regard to growth of entrepreneurship, particularly among new and medium entrepreneurs, their needs and problems.

The main sources of new and medium entrepreneurs in the near future are:

- (i) Existing entrepreneurs with a successful record of performance in a small scale of small or medium unit, wishing to diversify or expand their production;
- (ii) Technical and management executives from industrial or business organisations, domestic and foreign, attracted by the rewards of running their own enterprises and the feeling of independence that such an effort confers;
- (iii) Scientists and technologists serving in universities and national laboratories and Research and Development organisations;

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<sup>4</sup> Small scale entrepreneurs are those who are engaged in industrial undertakings with investment in fixed assets in plant and machinery not exceeding Rs. 7.5 lakhs or Rs. 10 lakhs if engaged in the production of ancillaries; medium entrepreneurs are those who are engaged in industrial undertakings which have fixed assets in land, building, plant and machinery up to Rs. 5 crores, but more than Rs. 7½/10 lakhs.

<sup>5</sup> *Report of the Committee on Development of Small and Medium Entrepreneurs* (Chairman of the Committee: Shri R. S. Bhatt).

- (iv) Traders, merchants and financiers turning to industry. This category will also include persons with substantial financial resources such as erstwhile coal mine owners after nationalisation of coal mines; and
- (v) Non-residents of Indian origin who might include persons of any of the class mentioned above.

Suitable environment is a precondition for the growth of entrepreneurial talent. The new entrepreneurs have to contend against competition from the existing units enjoying considerable corporate strength by way of financial, managerial and marketing resources. Suitable investment incentives and financial support would help smoothen the process of entry and survival of new entrepreneurs. Also the tasks of entrepreneurial development would be much easier in a climate conducive to growth. Under conditions of steady expansion of investment and production, there will be room for successful promotion of a large number of new entrepreneurs and enterprises. Stability and growth of investment, however, does not constitute a sufficient condition. Entrepreneurship as a factor has to be combined with many other inputs in order to be effective. Continuity in Government policy, development of 'mother industries', creation of infrastructure facilities in 'Growth Centres' and such other organisational and policy innovations would help greatly the development of entrepreneurial talents in the country.

#### CONSTRAINTS TO GROWTH OF ENTREPRENEURSHIP

The most important financial constraints to the entry of new entrepreneurs are: (a) the inadequacy of institutional arrangement for provision of promoters' equity capital, and (b) institutional shortcomings and inadequacies at the post-sanction, post-construction and post-implementation stages of a project. There is need for strengthening the follow-up organisations of institutions to provide timely assistance to new entrepreneurs.

The most important non-financial constraints to the entry of new entrepreneurs to the medium scale industry are the following: inadequate infrastructure facilities; distances separating central administrative organs from entrepreneurs and their projects; deficiency of various support services such as market intelligence, entrepreneurial guidance; entrepreneurial training, technical consultancy and merchant banking facilities; lack of an institutional mechanism to provide full-time management personnel complementary to that of the new entrepreneurs; and, finally, insufficient orientation of the promotional institutions barring a few exceptions at the stage level to the needs of new medium entrepreneurs.



RECOMMENDATIONS OF THE COMMITTEE ON DEVELOPMENT  
OF SMALL AND MEDIUM ENTREPRENEURS<sup>6</sup>

The Committee's main recommendations were:

*Environment of Growth*

- (1) There is need for a sustained expansion of 'mother' industries in the economy which hold a major significance for the growth of small and medium projects.
- (2) The development of infrastructure is important for growth of new entrepreneurship particularly from the point of view of its dispersal within the country. For this purpose 'centres' rather than 'areas' should be a preferred model for regional industrial development. To secure maximum impact, the number of growth centres selected within the backward regions should not exceed 50 to start with.

*Central Licensing and Connected Matters*

- (3) A special problem for the small units which are growing beyond the size of Rs. 7.5/10 lakhs relates to transitional arrangements to assure them of the existing supply of raw materials. Effective measures should be taken to implement the instructions issued by Government in this regard.
- (4) For purposes of allocation of scarce materials (imported or domestic) no distinction should be made between licensed and non-licensed units.
- (5) The DGTD's functions of scrutiny, inspection, etc., involved in registration should be demarcated from its technical advisory functions. Its work in regard to registration should be supported by the Officers' Committee drawn from different Ministries to formulate guidelines for registration of new licensed units. In order to expedite field inspection and provide technical assistance to medium units, regional field offices of DGTD should also be established.
- (6) Government should undertake a detailed review of the working of canalising agencies particularly as regards allotment of functions to the present agencies and the extent to which requirements of users have been met with promptness and satisfaction.

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<sup>6</sup> IIC Newsletter, August 1974 and Report of the Committee.

*Promotional Set-up at State Level*

- (7) State Governments should designate one promotional institution to set up a cell in its organisation for guiding and assisting entrepreneurs.
- (8) State level promotional activities should give specific and separate recognition to matters like development of industrial infrastructure, general promotion and financing of industries in backward regions and identification and promotion of new projects in partnership with private entrepreneurs.
- (9) Carrying out of promotional and financing work at the State level requires continuity of tenure of chief executives of these institutions. They should remain in their posts for sufficiently long periods and should be encouraged to make a career in State activities connected with industrial administration, promotion and financing.
- (10) For ensuring coordination of industrial promotion activities between different State level institutions, the Committee commends the pattern of arrangements prevailing in Gujarat, the chief characteristics of which are: appointment of common directors, joint publicity, joint financing and unified direction provided by the State Industries Commissioner.
- (11) Apart from facilities provided by State Governments by way of entrepreneurial guidance, the Indian Investment Centre should extend its present programme of opening Entrepreneurial Guidance Bureaus to cover all the States in the country. This will be particularly useful, among others, for providing guidance to non-resident Indians returning to the country.
- (12) The Committee attaches importance to entrepreneurial training programmes for which steps have been initiated by some of the States in the country and suggest that these be extended particularly to less advanced regions as this will strengthen the entrepreneurial qualities in the small scale-sector and provide the seed bed for new and medium entrepreneurship.

*Technical Consultancy*

- (13) Consultancy organisations are required at the State level for evaluating projects and for giving advice and guidance to small and medium entrepreneurs. It is also desirable to set up regional consultancy organisations, on the model of KITCO and NEITCO, in other centres.

*Financing*

- (14) In the Committee's view the answer to the problem of equity financing lies in a change of approach as regards financial thinking. A similar change in outlook is also required on the part of financial institutions in regard to provision of promoters' equity funds. Where an entrepreneur is not in a position to fully contribute his share of promoters' equity, the balance may be made up by the financial institutions.
- (15) Availability of refinancing from IDBI at more than one institutional source in a State will make it possible for new small or medium enterprises to obtain most, if not all, of the loan finance from the local institutions.
- (16) In order to apply constructive judgement and whole-hearted attention to the problems of new entrepreneurship, the institutions should create appropriate cells or operational centres in their respective organisations and in case of joint-financed projects, the institutions should elect one of the participating members as the "lead organisation" to look after the post-sanction, post-construction and post-implementation relationship with a project. Also to secure effective working capital financing for such projects at the time of joint financing, the institution should elect a commercial bank and enter into a suitable covenant with the bank concerned to take care of the working capital contingencies of the project. Further, the lead financial institution should sponsor specific problems of projects for the attention of the Government for timely remedial measures.

*New Organisational Arrangements*

- (17) A well-directed programme for dealing systematically with the various problems of new and medium entrepreneurs calls for a focal organisation with the following key-functions:
  - (i) to make equity investments in private and public limited companies promoted by new entrepreneurs and to provide similar financing to State financing agencies;
  - (ii) to provide assistance to new entrepreneurs in acquiring supplementary promoters' equity funds;
  - (iii) to provide various types of semi-equity funds as well as a variety of conventional and non-conventional types of loan assistance;

- (iv) to maintain in its employment a strong full-time team of technical and managerial personnel to provide pre-implementation, construction and post-implementation support to new medium enterprises;
  - (v) to provide support to development of a competent consultancy service in the country;
  - (vi) to provide finance to consultancy and project engineering organisations for acquiring patents, processes, technical know-how and designs and where necessary, acquire them on its own; and
  - (vii) to provide support to the strengthening of various training programmes.
- (18) The Central organisation should also consider setting up of associate bodies for the purpose of:
- (a) providing effective market intelligence to new small and medium entrepreneurs;
  - (b) providing technical intelligence and other information to new entrepreneurs to identify existing sources of know-how within the country and abroad and, as part of this work, to open negotiations and act as intermediary, between users of know-how and those who can supply it; and
  - (c) to set up equity corporations at the State level in conjunction with State Governments and commercial banks.
- (19) The new institutional arrangement would require support by way of Plan funds to the extent of about Rs. 100 crores during the Fifth Plan.

*Government Decision on Recommendations of the Committee<sup>7</sup>*

The Central Government has considered the report of the Committee and have taken decisions on its principal recommendations. The acceptance of these recommendations by the Government will go a long way in promoting entrepreneurialship in the small and medium sectors. In this context, following are the important decisions.

- (1) Creation of a new 'focal' organisation to service the entrepreneurial requirements of new and medium entrepreneurs, recognising

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<sup>7</sup> Government Resolution, Ministry of Industrial Development (Published in the Gazette of India, ordinary part I, section 1, dated 3rd August, 1974).

the need to give special attention to the requirements of small and medium entrepreneurs. Government, therefore, has taken a decision to restructure the Industrial Development Bank of India (IDBI) in certain respects and the necessary legislation has been introduced in Parliament. It is considered that the proposed functions of the suggested new organisation can be discharged by IDBI itself. It is proposed to create a distinct and separate Division within IDBI to specially look after the requirements of the entrepreneurs. The working of this arrangement would be reviewed after a period of two years when the question whether there is need for a separate organisation would be considered.

- (2) The Committee has recommended that refinance facilities by IDBI be extended to at least one more State-level promotional and financing institution, besides the State Financial Corporations. Subject to the availability of resources, IDBI is considering the possibility of extending re-finance, provided these institutions are financial in character and they do not undertake in any significant manner other types of promotional activities like setting up of new enterprises, supervision of infrastructure, etc.
- (3) The Committee has recommended the setting up of State level technical consultancy organisations both by IDBI as well as by the State Governments. The Central Government commends this recommendation to the State Governments; IDBI is agreeable in principle to participate in a limited manner in these organisations.
- (4) Another important recommendation of the Committee is that the financing institutions should not be too rigid in insisting on a minimum of 15 per cent of share capital by the entrepreneur and should be prepared to help him contribute his share and hold it in trust for the entrepreneur till such time as he is in a position to buy it back. Government accepts this recommendation in principle, subject to the availability of adequate resources and submission of well conceived and viable schemes.
- (5) Government accepts the recommendation of the Committee that merchant bank services be made available throughout the country. Government also accepts the recommendation of the Committee that public financial institutions and State Financial Corporations should devise common forms and documentation.
- (6) The Committee has recommended that the post-construction and post-implementation problems of the new entrepreneurs should be specially taken care of and that a 'cell' should be created by

the public financial institutions to service these needs. Government agrees with this recommendation in principle but feels that the type of organisation necessary for discharging this function should be left to the discretion of the institutions concerned.

- (7) The Committee has recommended that a lead bank in the area concerned should be entrusted with the promotional role and that one of the nationalised banks should set up a special 'cell' for this purpose. Government recognises the need for banks to play a supporting promotional role and lead banks have already been designated at the district level, which is the basic unit of operation. However, the basic extension and promotional role will have to be played by the State level agencies like the Director of Industries, State level corporations, small industries services institutions, etc.
- (8) The Committee has also recommended that certain tax concessions should be given to certain eligible classes of new entrepreneurs by means of amendments to the income-tax legislation. These recommendations are under consideration in consultation with the Ministry of Finance.
- (9) The Committee has made several recommendations on the steps to be taken to create an adequate infrastructural and promotional base to accelerate the process of industrialisation. Most of these recommendations pertain to State Governments and Central Government accepts them and recommends that the State Governments accept and implement them.
- (10) The Government accepts the recommendation that the accent should be on 'centres' rather than 'areas'. Some of the State Governments have already taken steps to form corporations to stimulate the development of backward areas, particularly the growth centres. Government also agrees that the State Corporations should play a more prominent promotional role and bestow adequate organisational and managerial attention to this task. Central Government is also considering the need for establishing a central agency to assist in the coordinate development of growth centres in the industrially backward areas in the country.
- (11) The Central Government also agrees with the recommendation of the Committee that the entrepreneurial guidance functions of the Indian Investment Centre need to be enlarged, subject to the overall constraints of resources.
- (12) The Committee has also recommended that the transitional problems of small-scale to medium-scale should be taken care of.

Government recognises that growth is a part of the normal process of industrial development and that no impediment should be placed in the way of such transition, provided it is not detrimental to Government's policy on the reservation of certain items for exclusive development in the small-scale sector and to the interests of the small-scale sector in general.

- (13) The Committee has also recommended that DGTD should streamline the system of registration, play a distinct promotional role and start regional field offices. The office of DGTD has now been reorganised with a view to place greater stress on promotional and development aspects. With this end in view, three new divisions have been created, namely, the Technology Development Division, Energy Conservation Division and Policy, Planning and Coordination. A new Directorate is also being formed for Materials Conservation to ensure optimum use of scarce materials. A Central Information System is also being organised. Guidance is being evolved to deal with registration cases to ensure speedy action. With the reorganization and improvements proposed, there does not appear to be any need for establishing regional offices of DGTD.
- (14) The Committee has recommended that relaxation should be granted from the current limit of Rs. 50,000 per annum of remuneration to the working Directors of concerns making no profit or inadequate profits and that this should be enhanced to Rs. 50,000 per individual per annum. The Committee has also recommended that the State Financial Institutions be given the same exemptions under Section 372 of the Companies Act as in the case of Central Financial Institutions. Another recommendation of the Committee is to modify the proposed amendments to the company law regarding raising the limit of the turnover and paid-up capital for conversion from private limited into public limited companies; the paid-up capital to be enhanced to Rs. 5 million and no limit to be fixed as far as the turnover is concerned. In the light of the recommendations made by the Committee and from various other quarters, Government have decided to raise the limit of turnover to Rs. 10 million. Government also accepts the recommendation to amend Section 372 of the Companies Act to place the State Financial Corporations on par with the Central Government Financial institutions. Insofar as the recommendation to raise the limit of remuneration to the working Directors is concerned, Government takes into consideration all relevant factors in fixing the minimum remuneration under Section 198(4) of the Companies Act and will continue to do so.



The acceptance by the Government of the recommendations of the Committee on Development of Small and Medium Entrepreneurs can reasonably be expected to accelerate the process of the nurturing, diversification and democratization of entrepreneurship in India. The measures which ought to follow in the near future would ensure the availability of adequate financial, technical and other facilities, the lack of which so far had served as obstacles for growth of entrepreneurship. The transition from small-scale entrepreneurship to medium-scale entrepreneurship, with all the attendant complex problems, will also be facilitated as a result of the implementation of the recommendations. Thus, the broadening of the base of entrepreneurship in the small and medium sectors will help to achieve the objectives of social justice and planned economic development.

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## ORGANISATION AND ROLE OF DGTD — PROBLEMS AND PERSPECTIVES

*B. J. Shahaney*

**D**GTD has rich traditions and heritage. It has nursed and nurtured over 4000 industrial units in the organized sector of engineering, chemical and related fields where a large degree of industrial self-sufficiency and self-reliance have become a matter of fact. On the other hand, the Organisation was more prominent in its regulatory function rather than its legitimate functions of technical development. In this context and because of the economic challenges facing the country, a technical reorientation has been given to the Organization with the major plank of strategy being increased communication, rapport and coordination with industry, Government departments, R & D and association of industries, etc. The actions taken and discussed in this article will, it is hoped, enable the organisation to play its rightful role in securing a well-balanced and properly coordinated pattern of industrial development in the country.

### ORGANISATION ROLE AND OBJECTIVES

The history of the Directorate-General of Technical Development is the chronicle of the industrial development of the country itself in the post-Independence planning era. Tracing its origin to the immediate post World War years, and in the wake of the Industrial Policy Resolution of 1948 and the advent of a planned economy, the Development Wing of the then Ministry of Commerce and Industry attained the status of a separate office in 1951. The spurt in industrial development during the first two plan periods resulted in a phenomenal increase in the volume and diversity of responsibilities of the Development Wing. In November 1962, the Organisation was re-designated the Directorate-General of Technical Development (DGTD).

As the principal Technical Advisers and Consultants to the Government of India in the industrial field, the main responsibility of DGTD is to advise and assist not only the Ministry of Industrial Development, of which it is an integral part, but also all the other Ministries and Departments of the Government and the various branches of industry in all technical aspects of industrial development. Its activities have been assuming an accelerated importance from year to year in the context of the expanding industrial base

of the country. The field of operation of DGTD covers all industries except iron and steel, coal, textiles, jute, sugar, vanaspati and petroleum.

The charter of functions of DGTD, as laid down by the Government, is:

- (i) to advise on and assist in the planning and development of industries to secure a well-balanced and properly coordinated pattern of industrialisation of the country;
- (ii) to advise on and assist in formulating the detailed industrial production targets under the five year plans and keep them under constant review;
- (iii) to secure increased production of those articles and commodities, the present production of which is insufficient to meet the country's demand and ensuring improvement in the quality of production;
- (iv) to examine from technical angle applications received under the Industries Development & Regulation Act 1951 for establishing new industrial units or for effecting substantial expansion of existing production units and make appropriate recommendations to the concerned Ministries;
- (v) to advise on the suitability of collaboration terms in respect of industries sought to be established with foreign collaboration;
- (vi) to scrutinise applications for import of capital goods, raw materials, steel, etc., from the point of essentiality and/or indigenous non-availability;
- (vii) to advise and make specific recommendations regarding:
  - (a) formulation of import and export policies;
  - (b) tariff protection;
  - (c) training of technical personnel overseas, etc.
- (viii) to issue certificates of exemption from payment of customs duty on scientific equipment and appliances not manufactured in India;
- (ix) to collect and compile industrial data relating to installed capacity, actual production, employment position, stocks, prices, etc., and apprise the Ministries concerned of their trends;
- (x) to tender technical advice on the promotion of export of engineering and non-engineering goods;

- (xi) to assist various Government Organisations like IFC, IDBI, NIDC, etc., on technical aspects in connection with grant of loans to industries;
- (xii) to guide the work of the Development Councils constituted under the Industries Development & Regulation Act, 1951 and act as Secretariat for the same;
- (xiii) to conduct studies to find out substitutes for imported raw materials and finished products;
- (xiv) to assist the Indian Standards Institution in preparing standards for various products including raw materials, adoption of quality certificate scheme; etc.;
- (xv) to assist the Government in running private sector factories taken over by the Government under the Industries Development & Regulation Act, 1951;
- (xvi) to arrange for participation of its technical officers in scientific and technological seminars and symposia both in India and under the aegis of the international organisations abroad;
- (xvii) to give technical advice to industries in switching over to the metric system of weights and measures; and
- (xviii) to modernise industries.

In discharging these functions over the years, DGTD has midwifed, nursed and nurtured over 4,000 industrial units in the organised sector of engineering and chemical and related industries to a stage where a large degree of industrial self-sufficiency and self-reliance have become a matter of fact. From negligible levels of production in the immediate post-war years, the actual production of the vast complex of the industrial sectors looked after by DGTD rose in 1973 to a value of Rs. 6,000 crores. The DGTD has played a pioneering and significant role in encouraging industry to attain self-reliance. This self-reliance, in practical terms, is one of a progressive build-up of machine building capacities for supply of capital equipment from within the country to crucial sectors of economy like power, transport, agriculture, tele-communications, mining and industry to a stage where gaps in needed industrial capacities have narrowed substantially. In the manufacture of machinery and equipment itself, as well as in the wide range of engineering and chemical products manufactured in the country, the import content has been reduced steeply. To illustrate, to sustain the production of Rs. 6,000 crores in DGTD sector in 1973, the total foreign exchange input was less than 10 per cent. Even this minimal outlay of foreign exchange was accounted for the most part by inescapable

imports of basic raw materials like ferrous and non-ferrous metals and organic chemicals, the production of which within the country was subject to severe stresses and strains during the year. What is more, from a paltry Rs. 4 crores in 1951, the export performance of engineering and chemical and related industries in 1973-74 had risen to Rs. 310 crores. For a micro-analysis of this impressive industrial development over the four Plan periods, in the vanguard of which DGTD has always remained, one need only look at the sector-wise statistics of capacity and production published by the various Ministries and Departments of the Government, including DGTD, and the Federations and Associations of Industries.

#### THE PROBLEMS AND PERSPECTIVES

Last year was a period of great stress and difficulty both internationally and nationally. The economic distortions sweeping the world and India had brought about major changes in the wake of the international monetary crisis, and the energy crisis. For us in India, these changes have meant a tremendous upsurge of the maintenance imports bill for crude and petroleum products, basic ferrous and non-ferrous metals and basic organic and inorganic chemicals. The foreign exchange constraints imposed by this situation coupled with problems of shortage of power, transportation, etc., have resulted in real apprehensions of the productive capacities already built up with considerable outlays being rendered partly infructuous whereas the priority needs of the economy call for a real acceleration of the industrial growth of the country.

In this context, there is now, as never before, a paramount need for a national husbanding of resources calling for a micro-planning of industrial growth with an emphasis on national needs and priorities, conservation of energy, good materials management, renewed export promotion and import substitution, and a massive conservation of scarce indigenous and imported raw materials through economies and recycling of industrial scrap and wastes. The key to all these areas of activity is technological support which *inter alia* would call for streamlined and time-bound programmes for the development of industry based on balanced and proper inputs. It is in these directions that DGTD has to be restructured and re-oriented to play its legitimate role in bringing about measurable results for the industrial economy.

Over the years, the working of DGTD has come under the scrutiny of several Committees like the Mathur Committee (1965), the Estimates Committee of Parliament (1972-73) and several other agencies including a critical self-scrutiny by DGTD itself. Over a million receipts per annum connected with one or the other aspect of industrial development and the enormous and recurring influx of applications arising out of the regulatory aspects so

industrial development like industrial licensing, registration, capital goods licensing, foreign collaboration approvals, maintenance import licensing, statutory and non-statutory pricing and a host of other factors have cut into the time and energy of the engineers and technologists of the Organisation with the result that most of the officers had got bogged down in regulatory functions. The aforesaid Committees and Agencies have accordingly rightly pointed out that more time should be spent by the technical officers of DGTD in exercising their legitimate functions of technical development. This task would, on the one hand, call for a streamlining of the regulatory functions insofar as they impinge on the time of officers of DGTD, and, on the other, a new thrust towards technological advice and support from the Organisation to the Government, the industry and R & D.

It was in this situation that the Government took a decision in December, 1973 to elevate the post of Director-General, Technical Development to that of Secretary (Technical Development) and, through him, bring about a structural modification of the Organisation for a renewed emphasis on the technical development functions.

The main lines of reorganisation have been worked out on accepted principles of management, namely, a clear division and demarcation of activity areas into: (a) Management Coordination Area; (b) Functional Area; and (c) Support Area. The principal emphasis and concrete programmes of work would be centred round the following.

- (a) Formulation of long-term perspective plans for all key sectors of industry to enable detailed plans for five-year periods in order that the achievements from year to year are properly adjusted in the wider perspective;
- (b) Greater attention to the developmental role through close interaction between DGTD, CSIR, NRDC, NCST, Technological Institutions, Universities, etc., so that development and utilisation of indigenous R & D effort are maximised;
- (c) The expertise of personnel in the Organisation to be up-dated so that they are abreast of the latest technological developments. As a part of this objective, field studies/attachments/training with industry would be arranged for the technical officers;
- (d) To liaise more intimately with agencies such as NIDC, technical consultants in the public and private sectors, Bureau of Industrial Costs & Prices, etc., so that techno-economic studies on technology, economic size and location aspects of industry, based on consideration of resources and allied factors, are properly considered; and

- (e) To develop a computerised information system on a time-bound basis which will not only help improve the planning process but also reduce paper work. (The computerised information system must have, in due course of time, a proper and adequate linkage with other information centres in the country).

In the wake of the reorganisation, the following new Divisions have been brought into existence:

- (a) Policy, Planning & Coordination;
- (b) Energy Conservation;
- (c) Materials Conservation;
- (d) Technology Development; and
- (e) Capital Goods Development and Monitoring.

These new Divisions will be manned by appropriate officers by transfers from within the Organisation and by induction of expertise from outside the Organisation into these Divisions. The rest of the technical officers in the Organisation have been re-grouped into four Divisions, each led by a Deputy Director-General and supported by an adequate complement of Industrial Advisers, Development Officers and Assistant Development Officers. Two of DDG's Divisions are on the engineering side while the remaining two are on the non-engineering side. Individual charges of Development Officers under DDG's Divisions have been re-aligned to permit specialization in technical disciplines as related to closely-knit industry groups. DDG's Divisions would concentrate within industries or industry groups on specific functions like: (a) development of key industries on an integrated basis; (b) import substitution at the micro-level; (c) optimum utilization of existing capacity; and (d) to a smaller extent, regulatory aspects like industrial licensing, capital goods licensing and foreign collaboration approvals.

The Policy, Plan & Coordination Division would undertake or deal with perspective planning for key industries under the charge of DGTD, coordination within the Organisation of import and export policies and export promotion and generation, foreign exchange budgeting for DGTD units, trade protocols and joint ventures abroad, coordination of activities of Development Councils, Board of Awards for import substitution and complaints from industries and consumers on quality and deliveries.

The Energy Conservation Division will be concerned with the formulation of measures aimed at conservation of energy sources, utilisation of alternative sources of energy, maximisation of fuel efficiency in industrial practices and assistance in supplies of fuels to industry. It will also provide a



permanent secretariat service to the Standing Committee on Furnace Oil set up by the Government under the chairmanship of the Director-General and its various Sub-Committees. The Division will work in close cooperation with R & D, NPC and other technical agencies.

The Materials Conservation Division will identify, evolve and support concrete time-bound programmes, in conjunction with various Governmental and non-Governmental agencies in the field, for rationalisation and standardisation of industrial raw materials, elimination of the usage of scarce raw materials for non-essential applications, changes in technical standards designed to yield economies in material usage but without sacrificing quality and safety, import substitution of scarce materials through changes in technological processes and shop floor practices and recycling and recovery for optimum utilisation of industrial scraps and wastes. The Division will initially concentrate on scarce ferrous and non-ferrous metals and certain raw materials for the chemical industries like the use of calcium carbide in lieu of naphtha for production of PVC, use of bagasse from sugar mills for manufacture of paper, recycling of wastes, etc.

The Technology Development Division would concern itself with maximising the use of indigenously developed technology and its translation into commercial production. Through suitable linkages or otherwise, it would, in addition, identify from time to time the gaps where R&D effort in various Institutes could be channelised and harnessed to the advantage of industry and nation. Additionally, it would prepare a selective list on a year to year basis to pin-point areas where foreign collaboration would still be necessary. The Division would provide entrepreneurial guidance on availability of technical know-how in the country, appropriate choice of equipment for projects, availability of raw materials, choice of location and other essential parameters. The Division will provide the secretariat for the newly constituted Technical Committee, under the chairmanship of the Director-General, where for the first time CSIR, NRDC, Department of Science & Technology and DGTD have been brought together to give technical orientation to the process of industrial development. The Committee will function in cooperation with the concerned Ministries/Departments and agencies to consider technological aspects of proposals involving import of technology within the framework of guidelines issued from time to time, before these are sent to the Licensing Committee/Foreign Investment Board. The major task of the Committee will be to identify on a sectoral basis the future technological needs and ensure a harmonious mix of imported and indigenous technology based on national needs, priorities and objectives.

The Capital Goods Development and Monitoring Division will concern itself with the studies, on a continuing basis, of the types of capital goods.

still imported into the country, forecasts for modernisation of industries, standardisation features, maximisation of manufacture of spare parts and so on. It will also monitor and evaluate from time to time the programme in this regard in conjunction with the concerned Development Officers.

In addition to these lines of reorganisation, the Administration Directorate in DGTD has been re-oriented towards management development and training activities. This has become necessary particularly because the Organisation has a strength of 223 officers of diverse technical disciplines and 678 other staff. There would be renewed emphasis in the Division for providing job-enrichment and career development opportunities for the technical officers and staff. The Division would plan induction of outside experts into the Organisation wherever necessary and attachment of the Development and Assistant Development Officers for training in industry and review the appraisal system of officers for competence from time to time. Similarly, the Public Relations Unit of DGTD has been reorganised to play its proper role as a linkage with industry and to project a proper image of the Organisation. A Computerised Information Centre is being set up to provide the various organs of the Organisation and the various Ministries with data on production and capacity trends and other important information. When it is ready, it will reduce paper work and help in the proper and speedy dissemination of information which is useful for the conduct of the operations of DGTD.

The new Divisions have started functioning and the initial results achieved lend hope to the re-oriented objectives of the Organisation being fulfilled in the years to come. The measures taken for streamlined time-bound actions with main emphasis on technical development functions will enhance the capability of the Organisation to play its legitimate role in the balanced and coordinated development of the industrial base. The major plan of strategy is increased communication and coordination with industries, associations of industry, R & D organisations, Government departments on matters relating to technological aspects, maximum utilisation of existing capacities and a number of other areas. It is our hope that the current challenges facing the industrial economy of the country would get resolved through the rededication and commitment of DGTD to national goals and priorities.

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## FOREIGN INVESTMENT/COLLABORATION IN INDIA

*T. N. Chaturvedi*

SINCE Independence, inflow of foreign private business investment and modern technology in India has been significant within the framework of foreign investment policy followed by the Government of India. Over the years, however, the Government's policy has tended to be more and more selective consistent with the development of indigenous technology, bringing about consequential changes in the volume and pattern of foreign capital and technology in India. The overriding philosophy of the foreign investment policy of the Government has been to move towards the goal of a self-reliant economy. The compulsions of an economy of scarcity also have their impact in working out the lines of action from time to time in the field of foreign investment. In the paragraphs that follow, it is intended to make a broad review of the existing foreign investment and collaborations in India, the administration of foreign investment/collaboration policy and problems, the impact of foreign capital on country's economic development and the role of the Indian Investment Centre in encouraging flow of foreign private investment in its different forms.

### FOREIGN INVESTMENT/COLLABORATION IN INDIA AND TREND

The total outstanding foreign private business investments, excluding banking and insurance, in India, increased from Rs. 26 crores in 1948 to Rs. 680 crores in 1961 and further to Rs. 1000 crores in 1966 and to nearly Rs. 1700 crores<sup>1</sup> by March 1972. Table A gives the country and sectoral distribution of outstanding foreign private business investments in India in three selected periods, *i.e.*, end-1948, end-1961 and March 1970, the latest year for which detailed data are available.

It will be seen that the overseas investment in manufacturing industry as a percentage of total foreign investment in India increased gradually from 27.6 per cent in 1948 to 42.8 per cent in 1961 and to 57 per cent in 1970. The share in petroleum was 9 per cent in 1948 which increased to 22.4 per cent in 1961 and declined to 11.3 per cent in 1970. The investment declined in plantations and mining sizably over the years (from 19.9 per cent

<sup>1</sup> Quick estimates by the Reserve Bank of India (Starred Question No. 469 of 13th August, 1974, Rajya Sabha).

Table A  
Outstanding Foreign Private Business Investments  
(By Country-wise and by Industry-wise)

(Country-wise and Industry-wise)

(Rs. Crores)

Mid-1948

End-1961

March 1970

	Direct %	Other private and official capital %	Total %	Direct %	Other private and official capital %	Total %	Direct %	Other private and official capital %	Total %	Direct %	Other private and official capital %	Total %			
Canada	—	—	—	6.3	1.2	0.2	Neg.	6.5	1.0	18.8	2.5	1.9	0.2	20.7	1.3
France	—	—	—	—	—	—	—	—	—	0.6	Neg.	48.6	5.3	49.2	3.0
Germany (West)	0.1	Neg.	0.1	4.4	0.6	6.3	4.0	10.7	1.4	20.0	2.7	94.2	10.31	114.2	7.3
Italy	—	—	—	2.4	0.5	1.7	1.0	4.1	0.6	5.3	0.7	84.3	9.1	90.1	5.5
Japan	—	—	—	0.9	0.1	2.3	1.5	3.2	0.5	2.9	0.3	62.2	6.8	65.1	4.0
Sweden	—	—	—	4.4	0.6	—	—	4.4	0.7	10.3	1.3	8.4	0.9	18.7	1.1
Switzerland	4.6	2.2	0.7	7.6	1.4	1.7	1.0	9.3	1.2	35.5	4.7	9.0	1.0	44.5	2.5
U.K.	179.6	85.5	26.4	80.5	417.6	28.6	19.0	446.2	65.9	488.5	66.5	131.0	14.4	619.5	37.8
U.S.A.	10.2	4.9	1.0	2.2	11.2	4.9	19.9	95.9	14.1	135.2	18.2	301.0	32.5	426.2	26.0
Other countries	16.6	93.4	38.0	7.6	1.2	91.9	60.0	99.5	14.6	26.9	3.1	86.7	10.0	113.6	6.9
International Institutions	—	—	—	—	—	—	—	—	—	—	—	81.2	9.5	81.2	4.6
All countries	211.1	100.0	44.7	100.0	527.2	100.0	100.0	679.8	100.0	734.5	100.0	908.5	100.0	1643.0	100.0
I. Plantation	—	—	—	52.2	19.9	99.1	19.0	3.3	2.0	102.4	15.0	121.2	16.9	5.3	0.6
II. Mining	—	—	—	11.5	4.3	10.9	2.1	1.5	1.0	12.4	1.9	6.2	0.8	7.8	0.8
III. Petroleum	—	—	—	22.3	8.9	148.1	28.1	4.4	3.0	152.5	22.4	123.9	17.0	63.2	7.0
IV. Manufacturing	—	—	—	70.7	27.6	186.8	35.6	108.2	71.0	295.0	42.8	421.0	57.2	513.7	56.5
V. Services	—	—	—	99.1	39.3	82.3	15.2	35.2	23.3	117.5	17.9	62.2	8.1	318.5	35.1

in 1948 and 15 per cent in 1961 to 8 per cent in 1970 for plantations and from 4.3 per cent in 1948, and 2 per cent in 1961 to 0.9 per cent in 1970 for mining). Similarly, in services sector the percentage came down from 39.3 per cent in 1948 to 22.9 per cent in 1970. This trend has been, it may be stated, consistent with the selective policy of Government in encouraging foreign investment in those fields of manufacturing activity where sophisticated technology was needed by India.

Country-wise, the highest investment has been from U.K., naturally for historical reasons. Its share in the total foreign investment in India was 80 per cent in 1948 which, however, has come down to 38 per cent in 1970. This is explained by the increased investment from other countries after India's Independence, particularly U.S.A., whose share in the total increased from 14 per cent in 1961 to 26 per cent in 1970. The other important collaborating countries in the field of foreign investment have been West Germany, Japan, Italy and France.

Indo-foreign collaborations (technical and financial) approved by the Government increased from a nominal 81 in 1957 to 700 in 1960, to 3200 in 1970 and further to nearly 4000 towards the end of 1973. U.K., U.S.A., West Germany and Japan are the principal countries with which collaboration agreements have been made and they account for nearly 70 per cent of the total number of agreements approved by the Government over the period 1957 to 1973. U.K. is the principal exporter of technology, followed by U.S.A., West Germany and Japan. Tables B and C give the trend in foreign collaborations at different periods, according to countries and different industrial sectors.

It will be observed that foreign technology flowed more and more in manufacturing sectors such as the electrical equipment apparatus and components, industrial machinery, machine tools and transport equipment, which together accounted for 43 per cent of total collaborations approved up to 1973. (The percentage share was 17 in 1957 and about 30 in 1960). Country-wise, U.K. has the highest number of collaborations in 1973, followed by U.S.A. and West Germany. While the relative share of U.K. declined from 31.2 per cent in 1960 to 25.4 per cent in 1973, the share of U.S.A. increased from 11 per cent in 1960 to 18.5 per cent in 1973; similarly the share of West Germany increased from 11 per cent in 1960 to 16.6 per cent in 1973. It is significant to note that the number of technical collaborations with some of the East European countries have been quite a few in recent years.

#### THE FOREIGN INVESTMENT/COLLABORATION POLICY

Coming to foreign investment/collaboration policy, one has to admit that it has stood the test of time during the last quarter of the century. The

**Table B**  
**Indo-Foreign Collaboration**  
**(Country-wise)**

	<i>Up to</i> 1957	%	<i>Up to</i> 1960	%	<i>Up to</i> 1965	%	<i>Up to</i> 1970	%	<i>Up to</i> 1973	%
1. U.K.	17	20.1	223	31.3	663	28.0	849	26.5	995	25.4
2. U.S.A.	6	7.4	81	11.3	408	17.3	579	18.1	732	18.5
3. Fed. Rep. Germany	2	2.5	79	11.1	348	14.8	491	15.4	642	16.2
4. Japan	1	1.2	51	7.1	198	8.4	381	9.0	381	9.5
5. Switzerland	—	—	16	2.2	110	4.8	152	4.8	191	4.8
6. France	2	2.5	14	2.0	83	3.5	125	3.0	167	4.2
7. Italy	4	5.0	21	3.0	66	2.8	89	2.8	107	2.7
8. German Dem. Rep.	—	—	6	0.8	55	2.4	72	2.3	84	2.1
9. Sweden	1	1.2	15	2.1	31	1.4	53	1.7	67	1.7
10. Netherlands	1	1.2	7	1.0	35	1.5	50	1.6	60	1.5
11. Denmark	—	—	8	1.1	27	1.1	36	1.1	42	1.1
12. Czechoslovakia	—	—	6	0.8	24	1.0	38	1.2	54	1.3
13. Austria	—	—	4	0.6	21	0.9	28	0.9	32	0.8
14. Belgium	—	—	6	0.8	20	0.8	26	0.8	33	0.9
15. Canada	—	—	2	0.3	15	0.6	21	0.7	25	0.5
16. Poland	—	—	1	0.1	16	0.7	18	0.6	19	0.4
17. Hungary	—	—	1	0.1	9	0.4	16	0.5	21	0.5
18. Yugoslavia	—	—	—	—	8	0.3	14	0.4	16	0.4
19. Finland	—	—	2	0.3	4	0.2	6	0.2	6	0.4
20. Others	47	58.9	171	24.0	217	8.9	247	7.4	284	7.5
Total	81	100.0	714	100.0	2358	100.00	3191	100.00	3958	100.0

**Table C**  
**Indo-Foreign Collaborations**  
(Industry-wise)

Industry	(Cumulative Numbers)				(Cumulative Numbers)			
	Up to 1957	%	Up to 1960	%	Up to 1965	%	Up to 1970	%
1. Electrical equipment apparatus, components etc.	4	4.9	65	9.1	306	13.0	404	12.7
2. Industrial Machinery (other than textile machinery)	6	7.5	51	7.1	375	11.7	438	13.7
3. Machine Tools & Accessories	—	—	36	5.0	161	6.8	231	7.2
4. Transport Equipment	5	6.3	63	9.0	169	7.2	216	6.8
5. Basic Chemicals	7	8.6	58	8.1	143	6.5	179	5.6
6. Chemical products	3	3.6	22	3.1	142	6.5	171	5.4
7. Heavy Electrical Equipment (Generation and Distribution)	7	8.6	52	7.1	333	4.7	151	4.7
8. Iron and Steel Products	2	2.4	43	6.0	115	4.9	141	4.5
9. Instruments	—	—	20	2.8	99	4.2	122	3.8
10. Textile Machinery	1	1.2	21	2.3	78	3.3	105	3.3
11. Material Handling and Construction equipment	1	1.2	24	2.4	72	3.0	104	3.3
12. Costing and Forgings	1	1.2	11	1.5	70	2.7	79	2.5
13. Drugs and Pharmaceuticals	4	4.9	27	3.8	60	2.6	77	2.4
14. Ceramic and Glassware	2	2.4	17	2.4	54	2.3	65	2.0
15. Paper and Paper products	2	2.4	13	1.8	42	1.8	49	1.5
16. Metal and Metal Products	2	2.4	7	0.8	33	1.4	47	1.4
17. Technical consultancy	—	—	3	0.4	24	1.2	38	1.2
18. Agricultural Machinery and Implements	1	1.2	8	1.2	20	0.8	42	1.3
19. Fertilisers	—	—	—	—	7	0.3	12	0.3
20. Pesticides	1	1.2	5	0.7	6	0.3	9	0.2
21. Others	32	40.0	167	25.4	375	15.2	502	16.1
<b>Total</b>	<b>81</b>	<b>100.0</b>	<b>714</b>	<b>100.0</b>	<b>2654</b>	<b>100.0</b>	<b>3191</b>	<b>100.0</b>
							<b>3958</b>	<b>100.0</b>



cardinal principles of policy, more or less, are the same as were formulated by the then Prime Minister in April, 1949. According to the policy, existing foreign capital was to be considered on par with national enterprises, mutually advantageous conditions for fresh inflow of capital were to be framed, repatriation of capital and remittances of profits were to be allowed and compensation in the event of nationalisation was assured. In the early 50s, India looked upon foreign investment as means of supplementing savings. During the Second Five Year Plan (late 50s) the accent was on supplementing the foreign exchange resources in the country. By mid-1960s the position changed considerably and the role of foreign capital began to be related, from time to time, to its capacity to bridge important technological gaps in the country. Government's policy has, therefore, now become highly selective and it would now like foreign technology as cannot be secured by an outright purchase or through a limited duration royalty agreement. Any capital participation is generally permitted in those areas where the technological gaps cannot be filled by indigenous technologies<sup>2</sup>. Foreign investment may only be justified when know-how needed in a particular field of high priority is available solely through equity participation or it is in an area where continuous access to essential technological improvements is necessary and cannot be secured by any other means. 'The role of foreign collaborations, both in regard to technical collaboration and investment must derive at all times from the necessity of the country's development requirements<sup>3</sup>. The objective of the policy is to move towards a position in which the country is not merely a recipient of foreign technology, but becomes capable of exporting know-how in certain fields for bringing about a measure of balance. It may be mentioned in this context that India has begun to export what is known as 'intermediate technology' to the neighbouring developing countries and even to some of the developed countries<sup>4</sup>.

#### FERA—GUIDELINES

Within the broad framework of this policy, the main criteria which have been followed by Government in inviting foreign investment and collaboration are mainly:

- <sup>5</sup>(i) Non-availability of comparable indigenous resources;
- (ii) Essentiality in the sense of contributing to development; and
- (iii) Effect on the balance of payments.

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<sup>2</sup> Draft Fifth Five Year Plan, 1974-79, Vol. II, p. 136.

<sup>3</sup> *ibid*, p. 135.

<sup>4</sup> See for more details: Joint Ventures Abroad, 1974, IIC.

<sup>5</sup> V. N. Subramaniyan, *International Transfer of Technology in India*, p. 28.

Specific regulations have been devised particularly with a view to limiting the drain on foreign exchange resources that foreign capital and technical participation necessarily entail in the form of dividends, royalties, technical fees, etc. Government has categorised industries into three groups;<sup>6</sup> those in which both financial and technical foreign participation may be permitted, those in which only technical collaboration may be permitted, and those for which neither technical nor financial participation is considered necessary. Foreign equity participation generally allowed is less than 40 per cent except in cases where the required technology is highly sophisticated or the project is export-oriented. The royalty payments are allowed to the extent of maximum 5 per cent of ex-factory selling price, while the duration of the agreement is limited to a period of five years. In the case of export-oriented industries, however, foreign investment and collaboration are liberally welcome even in low priority or non-essential industries with a view to strengthen the balance of payment position of the country. In order to avoid repetitive import of technology, Government favours the policy of sub-licensing of know-how to other Indian parties<sup>7</sup>. It may also be stated that the Government's policy on foreign investment, collaboration, in the ultimate analysis, is flexible and each joint venture proposal is judged on its own merits giving due importance to various criteria in its appraisal. The principle that foreign capital should be given 'a constructive and cooperative role in the development of India's economy' and should be utilised 'in a manner most advantageous to the economy' continues to be maintained<sup>8</sup>. Under the Foreign Exchange Regulation which came into effect from 1st January, 1974, Government have empowered the Reserve Bank of India to exercise control over the activities of all non-banking companies with more than 40 per cent of non-residents' interests as well as the branches of foreign companies, in respect of the carrying on of business in India of a trading or industrial nature, establishing branches in India, acquiring any business undertaking in India or purchasing shares of Indian companies.

Considerable misapprehensions and misunderstandings regarding the administration of FERA needlessly exist in certain quarters both in India and abroad. Though the basic objectives of FERA and the philosophy behind it are appreciated from the point of view of the national economy, an impression is being given that foreign investment is no more welcome and the existing foreign investment should be diluted.

It is significant that the Act nowhere speaks about liquidation of foreign investments as such nor does it prohibit the inflow of foreign capital and

<sup>6</sup> Government of India Press Note November 27, 1968 and also Guidelines for Foreign Investment of Government of India, 1974-75.

<sup>7</sup> Guidelines for 1974-75; G.O.I., IIC.

<sup>8</sup> Tarlok Singh, *India's Development Experience*, p. 327.

technology that are required by the country. It is relevant, in this context, to recall the exposition<sup>9</sup> of the philosophy of FERA made by the Minister for Finance. He had observed while addressing the members of the Select Committee, "May I make some basic remarks....First of all, there is the point that there is a complete reversal of the Government's Industrial Policy Resolution of mid-50s. I would like to inform the Members of this Select Committee as also the distinguished witnesses who are present here, that Government's Industrial Policy continues to be the same basically, as was enunciated in the mid-50s. The basic principles have not changed; but certainly times have changed and only certain modifications have to be brought about, without being contradictory to the basic principles of that Industrial Policy Resolution. If you have any feeling that this Foreign Exchange Regulation Bill is aimed at any foreign investor, I would request you not to have that feeling. What we want is to get power of review. As far as foreign investment is about 40 per cent it is not necessary that they would be asked to sell it out; but experience has shown that it is necessary to review these powers. Please give this basic position. Don't go away with the feeling that this Bill is only aimed at foreign investors. Our unfortunate experience has been not only with foreign companies, but Indian companies also. There were certain cases of evasion of foreign exchange. There were some difficulties. Parliament, therefore, wanted this matter to be examined very carefully. Therefore, a Committee had to be appointed. The intention is to plug the loopholes in the functioning of the foreign exchange regulation system, than to make any basic departure on that policy. I hope I have made myself clear."

To understand the rationale of FERA, it is necessary for one to note that foreign investment in the fields of technical, commercial, plantations, industrial and trading activities has been in existence from the pre-Independence days, when there was no control of any sort on foreign investment to be made in India. The Foreign Exchange Regulation Act, 1947 and amendments in 1957 and 1965 aimed at regulating payments in foreign exchange and dealings in transactions affecting foreign exchange, made it obligatory on the foreign majority companies operating in India to obtain prior approval of the Government in respect of certain types of trading activities, transfer of shares abroad from India, etc. The earlier Acts had no provision to regulate the entry of foreign investment in India in the branches, foreign firms and non-residents holdings, expansion of companies engaged in non-manufacturing activities and acquiring of control of other enterprises through purchase of shares or otherwise. The Foreign Exchange Regulation Act, 1973 (Section 29) provides for such regulation. The

<sup>9</sup>Discussions in the Select Committee on 3rd February, 1973. (Also quoted in the opening speech of Mr. N. S. Bhatt, President, Associated Chambers of Commerce and Industry of India at the Workshop on Foreign Exchange Regulation Act of 1973, organised on 14-9-74).

guidelines issued by the Government to administer Section 29 have been, by and large, welcomed by the industry as fair and reasonable.

A considerable flexibility has been maintained in the guidelines and the branches of foreign companies and Indian companies with more than 40 per cent shareholding have been given an opportunity to find ways and means to diversify their production.

To clarify some of the points usually raised by industry regarding the guidelines, it may be stated that :

- (i) FERA is concerned mainly with foreign equity participation of existing companies;
- (ii) the new companies cannot claim 74 per cent shareholding as against the existing companies on the basis of the guidelines. New companies will be governed by an entirely different set of guidelines. In these cases foreign investment will be treated as a vehicle for transfer of sophisticated technology not possessed by India; and
- (iii) Industries falling outside those specified in Appendix I of Industrial Licensing Policy but involving sophisticated technology as well as export-oriented industries are treated at par with the Appendix I industries.<sup>10</sup>

#### IMPACT OF FOREIGN CAPITAL ON INDIAN ECONOMY

What is the impact or contribution of foreign capital and technology on Indian economy? As stated in the R.B.I. Survey Report<sup>11</sup> a major problem in making an assessment of the contribution of foreign capital is whether, on balance, foreign collaboration arrangements have resulted in or can be relied on to result in a net gain to the country. Clearly an answer to this question cannot be given on the basis of just the factual data regarding dividends, royalties, technical fees, and the like, since the problem involves, among other things, an assessment of what progress in production, employment, exports and the advance of technology in general and of import substitution in particular would have been made in the absence of these arrangements for import of capital and know-how. The Pearson Commission also observed that the correct way to look at the balance of payments and benefits of investments is to ask what the balance of payments would have been like in its absence.<sup>12</sup>

<sup>10</sup> See for details *Guidelines for Industries 1974-75*, p. 28.

<sup>11</sup> "Survey of Foreign Financial and Technical Collaboration in Indian Industry, 1964-70", *RBI Bulletin*, June, 1974, p. 1043 and also "Foreign Collaboration in Indian Industry", *Survey Report* 1968.

<sup>12</sup> Lester B. Pearson, "Partners in Development", *Report of the Commission on International Development*, p. 101.

To quote from Pearson Report again, "Direct Foreign investment has added substantially to the real national income of developing countries." Foreign capital has played a useful role in the process of industrialisation of both developed and developing countries. In addition to supplementing the limited domestic resources of the host country, it bridges gaps that act as constraints on development, viz., gaps in balance of payments, savings and technology. Foreign private investment also helps to develop entrepreneurial skills by creating a cadre of trained workers in administration, marketing and other business techniques. In the early state of development, industrialisation often involves the establishment of new industries many of which are capital intensive and require high degree of technological sophistication . . . the burden of developing them must fall either on foreign capital or on the Government.<sup>13</sup> Foreign private investment in developing countries has provided the bulk of external contribution to the directly productive sectors, manufacturing, mining, oil production and agriculture.<sup>14</sup>

This is broadly true in the Indian experience and would be evident, only if one takes a bird's eye view of the Indian economic progress since Independence. India's national income in real terms has more than doubled between 1950 and 1973. Domestic capital formation is estimated to have increased from 5 per cent of GNP at market prices in 1950 to over 13 per cent in 1973-74. If one takes the socio-economic indicators, the installed capacity for electricity generation increased from 2.3 million KWs in 1952 to 18.8 million KWs in 1973-74, surface roads from 150,000 kilo-metres to 450,000 kilo-metres. Substantial increases; have taken place in the output of several basic commodities; the output of coal increased from 35 million tonnes in 1951 to 77.7 million tonnes in 1972; of cotton cloth in the mill sector from 3727 million metres to 4244 million metres; of iron from 3.7 million tonnes to 35 million tonnes, of finished steel from 1.1 million tonnes to 5 million tonnes and so on. The substantial increase in industrial output is reflected in the index of industrial production (1960=100) which rose from 54.8 in 1951 to 207 in 1973 showing an increase of nearly four times. What is significant is that, apart from quantitative changes, there have been qualitative changes in the industrial structure. It may be stated that in this task of building up a modern industrial India, foreign investment/collaboration has broadly helped in supplementing the country's domestic savings for maximising investments to fill the gap in foreign exchange resources and to bring in advanced technology and expertise. In this process, foreign capital and technical know-how have played a catalytic role both in the public and private sectors of the Indian economy.

<sup>13</sup>D. P. Dhar, Shri Ram Memorial Lecture, 1974 (*Tojana* 15-9-1974).

<sup>14</sup>Investing in Developing Countries—Facilities for Innovation of Foreign Private Investment in Developing Countries—OECD, Paris, 1970.

Against this background, however, the time is ripe in India as in other developing countries, where the importance of foreign capital has substantially increased, to undertake a comprehensive study whereby balancing is done of the benefits of foreign investment such as the infusion of technology and know-how and the inflow of capital against the outflows of profits, dividends and other remittances arising from foreign capital and technology. Only recently the group of eminent persons set up by the U.N. to study the operations and impact of multinational corporations submitted their report touching some of these aspects.

Recently, the Reserve Bank of India has published in its Bulletin (June 1974) a follow-up survey<sup>15</sup> of 1098 foreign collaboration agreements of 877 private sector companies and 41 corporate public enterprises in India for the six year period 1964-70, with a view to obtaining comprehensive information on the main features and pattern of foreign collaboration agreements. The survey rightly points out that 'the details obtained from the Survey do not cover all the balance of payments transactions of the foreign collaboration companies and therefore, it is not possible to assess the impact of the latter on the country's balance of payments. The items identified by the Survey included, on the current account side, exports (Rs. 7.2 billion), imports (Rs. 16 billion), remittance of dividends (Rs. 1.45 billion), royalties (Rs. 335 million), technical fees (Rs. 464 million), interest charges (Rs. 200 million) and payments to foreign technicians in foreign currencies (Rs. 173 million); and on the capital account side foreign loan receipts (Rs. 2.6 billion), repayment of such loans (Rs. 1.2 billion) and the net inflow of equity capital (Rs. 1.1 billion). These together showed a net outflow of Rs. 8.9 billion during the 6 year period ended 1969-70. The main reason for this, given by the Survey was the sustained high level of imports as against remittances by subsidiaries of the foreign companies. However, as stated by the Survey, without assessing the contribution made by the foreign collaboration companies in several other ways such as in respect of production, employment, degree of import substitution, etc., it is not possible to assess the overall impact of their operations on the country's balance of payments and also on the economy.

#### FUTURE ROLE OF FOREIGN INVESTMENT/COLLABORATION IN INDIA

"Like industry all over the world, Indian industry has to continue to depend on the most modern technology and know-how even if indigenous technology is developed."<sup>16</sup> The Indian economy though beset with temporary difficulties on account of a number of factors, including the hike in oil

<sup>15</sup>For Summary of main findings see *IIC Monthly Newsletter*, Sept., 1974. (NOTE: Figures in the bracket are for the six year period 1964-70.)

<sup>16</sup>"RBI's Survey on Foreign Collaboration in India", *RBI Bulletin*, June, 1974, p. 1082.

prices is poised for great strides in the near future. A higher rate of growth is feasible in India, once an improvement takes place in areas of power, transport, raw materials and utilisation of existing industrial capacities.<sup>17</sup> The country, however, is under strain on two counts, viz., shortage of investible funds and foreign exchange resources for the Fifth Plan. Foreign capital is expected to ease the constraints and fill the gap in resources needed to accelerate the rate of economic growth. The Fifth Plan estimates the gap to be filled in by external resources at Rs. 40 billion during 1974-79.

The investment climate in India is favourable, if viewed in proper perspective. India offers several advantages, such as political stability, well-knit administrative system, well-developed infrastructure facilities, specialised financial institutions and commercial banking system, and above all, a vast and growing domestic market as well as opportunities for exports. India also offers a wide range of general and special tax-incentives for new industrial undertakings and for the import of technology. "In as much as these incentives are available to, and in some cases designed specifically for, foreign investors, the high statutory rates of tax often referred to, should not prove an obstacle to new foreign investment. The operation of the incentive provisions reduces the effective tax burden to a level comparable to that in many other countries.<sup>18</sup> Also the capital exporting countries provide a number of incentives and facilities for the promotion of industry in developing countries. The recipient developing countries often offer important incentives, as in the case of India, and tax concessions. The overseas investors, therefore, will be able in many cases to use a complementary set of facilities provided from both the home country and the host country.<sup>19</sup>

Profitability of subsidiaries and foreign-controlled rupee companies has been good in recent<sup>20</sup> years, with profits after tax as percentage of total capital employed being 14.4 per cent and 14.5 per cent, respectively.... A recent study by "Business International"<sup>21</sup> also revealed that the net return on US investment in India in manufacturing industries rose from 14.2 per cent in 1971 to 15.8 per cent in 1972. This ratio has been higher than the corresponding ratio of highly developed countries like Belgium, Luxembourg, France, Italy, Netherlands, Norway, U.K. and several countries in Latin America. India also provides general facilities like the freedom of repatriation of capital and remittance of profits and dividends and parity treatment

<sup>17</sup>Mr. H. T. Parekh's Speech, ICICI, Annual General Meeting 1973-74.

<sup>18</sup>H. K. Singhal, "Taxing for Development; Incentives Affecting Foreign Investment in India" (International Tax Programme of Harvard Law School, 1971-72).

<sup>19</sup>Investing in Developing Countries—Facilities for the Promotion of Foreign Private Investment in Developing Countries—OECD, 1970 (Paris) *ibid*, p. 10.

<sup>20</sup>IIC Newsletter, February, 1974.

<sup>21</sup>Business International, November, 1973.



to foreign-owned enterprises with Indian-owned companies. There is a well-developed capital market. In addition, there is entrepreneurial talent and a growing corps of management personnel and skilled craftsmen and workers available in the country.

A mention may be made of the streamlined licensing<sup>22</sup> procedures introduced by the Government from November 1973 with a view to avoid delays in approvals. Under the new procedural system, approvals are given within 90 days of the receipt of application in each case in respect of letters of intent, foreign collaboration and import of capital goods and 120 days in respect of applications involving composite approvals. In respect of cases involving consideration of monopoly, the time limit will be 150 days. The essential feature of the new system is to communicate the decision to the applicants in respect of preinvestment approvals within these time-targets. The implementation of the system is placed under the overall supervision and guidance of Project Approval Board (PAB) *i.e.*, Interministerial Committee of Secretaries presided over by the Secretary, Ministry of Industrial Development. The Secretariat for Industrial Approvals (SIA) assists the PAB in processing and monitoring the cases. A single focal point at the PAB has indeed helped speeding up the clearing of applications, ensuring uniformity of treatment of cases by the Ministries concerned and providing better service to entrepreneurs.<sup>23</sup>

In the background of the 'Investment climate' described above, foreign investment will be welcome in what are known as the 'core' sector industries, industries to be set up in backward areas and in substantially export-oriented industrial ventures. Further, there are many areas in which India will need sophisticated technology and this will be allowed within the framework of the present policy.<sup>24</sup>

Government also encourages entrepreneurs, both Indian and foreign, who intend to invest in manufacturing operations in Free Trade Zones<sup>25</sup> in India, *viz.*, Santa Cruz Electronics Processing Zone (SCEPZ) for production of electronic products and Kandla Free Trade Zone (KAFTZ) for production of a number of export-oriented products. For investment in Free Trade Zones a number of basic infrastructural facilities as also incentives and concessions—fiscal or otherwise—are extended by Government.

<sup>22</sup> Proceedings of a Workshop for Industrial Approvals (Punjab, Haryana and Delhi Chamber of Commerce & Industry, Jan. 1974) (Indian Industrial Environment—Regulatory Framework for Business Operations by Arvind Bakre (Business India Publications).

<sup>23</sup> Guidelines for Industries, 1974-75 p. 70-72.

<sup>24</sup> Foreign Investment and Joint Ventures—R.S. Bhatt, Chairman IIC (Speech delivered at the Indo-American Chamber of Commerce, Bombay on 10th December, 1973).

<sup>25</sup> Santa Cruz Electronics Processing Zone (SCEPZ), *IIC Monthly Newsletter*, June 1974  
Kandla Free Trade Zone (KAFTZ), *IIC Monthly Newsletter*, Sept. 1974.

Thus the opportunities for overseas investment in India within the framework of the Government's policy are considerable and the investment climate is good. It is up to the overseas investors to take the decision to invest or not in a particular country by taking into account the various factors that go into the investment climate, as private investment is not an issue on which there is or can be compulsion on either side.

#### THE INDIAN INVESTMENT CENTRE—ITS ROLE

Before conclusion, it may not be out of context to state the role that the Indian Investment Centre (IIC) has played in attracting foreign investment and technology in the country. IIC, an agency primarily designed to stimulate the flow of foreign private capital and technology know-how into India within the framework of Government policies, was set up in December, 1960 as an autonomous body with its Headquarters in New Delhi. Its overseas offices are located in New York, Dusseldorf, London and Tokyo. The activities of IIC in New Delhi and its overseas offices have in a considerable measure facilitated the import of technical know-how in important segments of industry and inflow of foreign private capital, accompanied by managerial skills and marketing techniques.

The Centre has completed 14 years of its working and has functioned objectively in bringing together Indian and foreign entrepreneurs to fruitful collaborations and in creating new industrial capacity in the country. It provided a convenient forum to foreign and Indian entrepreneurs to have a free and frank exchange of views on various aspects of investment. The services of the Centre have been utilised in bringing the problems of the entrepreneurs to the notice of the Government in an objective manner. Equally, the Centre has explained to the perspective investors the logic behind Government policies and procedures in general and Government's broad approach to specific aspects of investment proposals so that they may be understood in their proper perspective. These services continue to be rendered by the Centre.

Consistent with its objectives, IIC focuses its activities on collection and dissemination of authentic information on programmes and policies of industrial development and decisions relating to private foreign investment in India and Indian investment abroad. Projection of correct picture on the conditions in India and dispelling possible misgivings on the part of foreign investors about the investment policies and opportunities for investment and promotion of joint ventures abroad are also important aspects of the Centre's activities. For this purpose, the Centre brings out a series of publications including a Monthly Newsletter, undertakes organisation of Seminars and Conferences, sponsors study tours of India by foreign

delegations and participates in national and international conferences and exhibitions.

The Centre guides and advises individuals entrepreneurs at various stages of the preparation of a joint venture proposals, and later in securing foreign collaboration approvals from the Government. This, it is able to do because of its close liaison with the Indian and foreign enterprises and with the Government.

In view of the nature of work performed by the Centre, it is not always easy to make quantitative assessment of the impact of its promotional services. It is natural that as a result of services of a general character rendered by IIC in terms of dissemination of accurate information a number of foreign investors may have evinced interest in investment opportunities in the country. Since its inception, the Centre has received about 14,000 enquiries of which 5000 were from abroad. As many as 382 joint ventures covering a wide range of important industries have been actively assisted by the Centre so far.

Over the period of more than a decade, it was inevitable that the emphasis in national priorities should shift towards greater self-reliance and, in this background, the Centre's activities naturally required re-orientation so as to meet the diversified needs of entrepreneurs and organisations for accelerating the pace of industrial development in the country. The present activities of the Centre also include, apart from those relating to inflow of foreign private capital, promotion of joint ventures abroad, assistance to medium and technologically qualified entrepreneurs, assistance to non-residents of Indian origin and assistance to public sector undertakings.

With regard to the non-resident Indians, the Centre is playing a useful role as a focal point for assisting them in setting up industrial units in India under the various facilities and concessions announced by the Government. The services being provided by the Centre to the entrepreneurs in this category include the following:

- (a) Systematic dissemination of information on policies, procedures and infrastructures available in different states;
- (b) Identification of items of particular suitability for the non-resident Indians and preparation of basic profiles on the same;
- (c) Effective liaison with Central Government agencies for getting expeditious approvals;
- (d) Assisting the non-resident entrepreneurs in getting facilities from the States by accompanying them wherever necessary;

- (e) Providing on-the-spot assistance to non-resident Indians on branch offices on selecting the item, capital equipment required, raw materials required, assessment of the suitable technology, in filling-up forms, etc.
- (f) Keeping a watch over the applications to monitor their progress so that assistance could be offered promptly where required.

The entrepreneurial guidance work, to which the Centre has been devoting increasing attention, provides the much needed institutional support for helping entrepreneurs achieve higher industrial production and wider employment opportunities. The Entrepreneurial Guidance Bureau (EGB) of the Centre serves as an advisory body for giving guidance regarding the need for setting up fresh capacity, size of economic unit and corresponding investment involved, methods of production, demand forecasts, preferred locations, availability of raw materials, type and terms of financial assistance and the Government policy on industrial licensing, foreign collaboration, etc. Apart from the Headquarters of the Centre at New Delhi, a branch of the Entrepreneurial Guidance Bureau is also functioning at Calcutta since early 1972. Proposals for setting up of more EGB branches in different States, consequent on the acceptance of the recommendations of the Committee on Development of Small and Medium Entrepreneurs headed by Shri R.S. Bhatt, Chairman, Indian Investment Centre, are being processed with the Ministry of Industrial Development. It is expected that it would be possible to provide effective assistance to entrepreneurs in all parts of the country in due course. Recently another dimension has also been added in the entrepreneurial development work of the Centre by organising a full-fledged training programme for qualified engineers and others of a year's duration in Calcutta. Requests for similar programmes have been received from a number of other States. It is proposed to implement such schemes elsewhere, in consultation with the agencies of the State Governments and financial institutions, in the light of the experience gathered in the course of the afore-said training programme.

Taking the totality of picture in view and in the context of the evolving policies, plans and programmes of the Government for accelerating the economic growth production and diffusion of entrepreneurship in the country, IIC will have a positive role to play in consonance with ~~out~~ overall socio-economic objectives.

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## CAPITAL ISSUES CONTROL

*R. M. Bhandari*

THE Capital Issues Control Act was introduced in 1943 under the Defence of India Rules. In 1956, the Capital Issues (Control) Act was placed permanently on the Statute Book. The main object of the Capital Issues Control is to foster a rational and healthy growth of the corporate sector by insuring *inter alia* that investment does not go into channels which are wasteful and not in accordance with the objectives of the Plan; and that companies have capital structure which is sound and conducive to the public subscription during any part of the year. It also safeguards the interests of investors in the corporate sector and helps in developing a healthy capital interest. The control is administered by the Ministry of Finance, Department of Economic Affairs through the Controller of Capital Issues.

### SCOPE OF THE ACT

Under the Act, the Central Government's consent to the issue of Capital within the country is necessary in respect of:

- (a) Issue of capital in excess of Rs. 25 lakhs during a period of 12 months;
- (b) Issue of Bonus Shares for any amount by public or private limited companies;
- (c) A public offer of securities for sale at premium or discount;
- (d) Renewal or postponement of the date of maturity or repayment of any security maturing for payment; and
- (e) Issue of debentures carrying conversion rights and other than those privately placed with Financial Institutions.

The following issue of securities are exempt from the provisions of Sections 3, 4 and 5 of the Act:

- (i) Issue of securities by Private Limited Companies;
- (ii) Issue of securities by Government companies, provided no public offer is made;

- (iii) Issue of securities by banking and Insurance companies (They are, however, required to report to Controller of Capital Issues);
- (iv) Issue of securities at par up to Rs. 25 lakhs by public limited companies within the twelve months;
- (v) Loans granted or debentures taken or guarantees given by public financial institutions such as IDBI, IFC, State Financial Corporations, Shipping Development Fund Committee, Life Insurance Corporation; and
- (vi) Loans, advances, overdrafts, or guarantees granted or permitted to banking institutions.

The details of exemptions are specified in the Capital Issues (Exemption) Order, 1969.

The more important types of cases with which the Controller of Capital Issues, who administers this Act, is concerned are:

- (a) Fresh issue of capital by new companies;
- (b) Issue of Right Shares by the existing companies; and
- (c) Issue of Bonus Shares by capitalisation of Free Reserves.

#### FRESH ISSUE OF CAPITAL BY NEW COMPANIES

In case of fresh issue of capital by new companies, the Controller of Capital Issues generally examines the following aspects:

- (a) Total capital cost outlay;
- (b) Scheme of finance; and equity debt ratio;
- (c) Capital Structure—Equity Preference Ratio; and
- (d) Procedural matters.

All companies are required to furnish a realistic capital cost estimate of the project along with their application to the Controller of Capital Issues. If the capital cost estimates and the scheme of finance have been accepted by the lending financial institutions while examining their participation in financing the capital cost estimate, the Controller invariably accepts the estimate and does not duplicate his efforts. The intention is to ensure that the capital cost estimate represents a fair and realistic estimate of the total capital outlay and that the company will be able to raise necessary resources to see the project through; otherwise, the investment made by the shareholders may be lost or prove infructuous for want of necessary finance. For this

purpose, the companies are required to file copies of letters from financial institutions indicating the acceptance in principle of the scheme of financing and their participation in financing the capital cost estimate of the company.

It is necessary to ensure that a company has a proper balance between its equity and debts and should not have a capital structure unduly geared in favour of debt. While there is no rigidity, by and large, an equity debt ratio of 1 : 2 is considered reasonable except in case of highly capital intensive industries such as Fertilizer, Shipping, etc., where a high equity debt ratio may not be considered unreasonable. The intention of the equity debt ratio is to ensure the debt with regard to interest and repayment and at the same time it should not be over capitalised. A too large a debt with a small equity may offer a poor security and the risk of companies going into insolvency becomes larger if the performance of the company is not very satisfactory. For working out the debt equity ratio in a company, debt includes all fixed interest bearing securities such as debentures, loans from institutions or parties and deferred credits for the purchase of capital equipment but excludes short term loans and advances including working capital loans. Equity for this purpose includes ordinary share capital plus preference share capital, if redeemable after 12 years or more.

The preference shareholders do not have the voting rights except in certain circumstances, hence the amount of such capital is generally restricted to one-third of the equity capital. In other words, an equity preference ratio of 3 : 1 is insisted upon. The rate of dividend on preference shares should be within the ceiling as notified by the Government from time to time. The present ceiling is at 11 per cent.

Shares covered by public issue are listed on the Stock Exchange. The object of listing is that the shares are quoted on the Stock Exchange and become freely transferable. The intending seller finds it easy to sell the share, if he so desires at the quoted price and the prospective buyer also finds it easy to acquire them. It facilitates the transactions in purchase and sale of shares and consequently inspires confidence among the investors. Necessary guidelines have been laid down which *inter alia* provide that the promoters' holdings including their friends, associates and inter-connected companies shall be limited to 40 per cent of the equity.

If there is any equity participation by foreign collaborator the combined holdings of the Indian promoters and foreign collaborators will not exceed 66.66 per cent and the balance will be offered to public. While granting fresh approval, this aspect is examined carefully. Sometimes, the financial institutions make it obligatory on the promoters that their contribution in



the project should not be less than a prescribed figure (say 15 per cent) of the total capital outlay and, while prescribing this figure, the financial institutions ensure that it would not hurt the "listing" guidelines under which the promoters' holdings are limited to 40 per cent. A firm allotment in favour of public financial institutions is permissible under the listing guidelines. No premium is allowed on the first issue of shares.

Ordinary issue of shares for consideration other than cash is not permitted. In exceptional cases, where the party desires that the shares should be allotted in lieu of assets transferred, detailed information in regard to valuation of such assets together with the copies of necessary valuation reports including reports from an independent auditors are also required to be furnished. In the valuation of fixed assets, no revaluation of assets is to be taken into account.

Ordinarily, no company is expected to make allotment of shares to non-residents except with the prior approval in writing of the Government or the Reserve Bank of India under the Foreign Exchange Regulation Act and a copy of such approval should be attached to the application, if it proposes to allot the shares to non-residents.

#### RIGHTS ISSUE

Sometimes an existing company wants to issue additional capital in order to finance its expansion and diversification programme. Such issue of shares by an existing company to its existing shareholders is popularly called "rights issue". Whether rights issue should be allowed at par or at premium is decided by the Controller on the merits of each case. The request of the company for a premium is examined after taking into account the break-up value of the shares, *i.e.*, net asset value, profit-earning capacity, the market value, the future growth and prospects of the company, the records of dividends, etc. In case of foreign majority companies, rights Issues are made only to Indian nationals, and in such cases, if the financial position of the company justifies a premium it is decided on merits.

#### BONUS ISSUES

The capitalisation of free reserves by issue of bonus shares is permissible under the Capital Issues Control Act. In respect of bonus issues, detailed revised guidelines have been issued by the Government. The main tests applied are:

- (a) Residual reserve test;
- (b) Profitability tests; and
- (c) Frequency test.

Bonus shares are issued by capitalisation of free reserves created out of genuine profits and share premium received in cash. Capital reserves created out of revaluation of assets or in any other manner of share premium not received in cash is not allowed to be capitalised for issue of bonus shares. All contingent liabilities disclosed in the audited accounts and which have a bearing on the profitability of the company are also taken into account in determining the amount of free reserves available for capitalisation. The residual reserve test provides that after the capitalisation the balance of free reserves should not be less than 33.33 per cent of the expanded paid-up capital of the company.

The profitability test envisages that bonus issues will not be in lieu of dividends and therefore there should be a dividend declared in the year in which bonus shares are proposed to be issued as well as an assurance that dividend will be declared in the next year also. The profitability test is also applied to ascertain whether the company will be able to service the increased equity base. For this purpose, 30 per cent of the net profits before tax should not be lower than 9 per cent of the increased capital.

The frequency test is that the time lag between the two bonus issues should be at least 40 months and not more than 2 bonus issues will be allowed in a period of five years counted backward from the current year. The total amount permitted to be capitalised from free reserves at any one time should not exceed the amount of paid-up equity capital of the company.

#### APPLICATION FOR DEBENTURE ISSUES

The application for issue of debentures are examined with reference to:

- (a) Purpose of the issue;
- (b) Equity debt ratio;
- (c) Whether the security offered is adequate;
- (d) Whether the company would be able to service the debentures without difficulty.

The issue of bearer debentures is not generally permitted. Where a company applies for postponement of the date of redemption of debentures already issued and a consent is given, then a condition is made that those debenture holders who do not agree to the postponement either in person or at a meeting of the debenture holders held for the purpose or in writing before such a meeting, should be repaid in cash before the due date.

The issue of convertible bonds and debentures is also permissible under the Capital Issues Control Act. In such cases, the time when the debenture

holders will have the option to convert debentures into equity and the rate at which such conversion shall take place should be indicated at the time of the issue. The permission under the Capital Control Act is also necessary if part of the debentures amount and/or loan has to be converted into equity. In such a case the rate at which such debentures or the amount of loan will be converted into equity needs approval of the Controller of Capital Issues.

#### ADVISORY COMMITTEE

In terms of Section 11 of the Act, Government had constituted an Advisory Committee who is consulted in formulating guiding principles for the administration of this Act. The Advisory Committee consists of five reputed non-officials who are persons of considerable experience and well known in the commercial world. It may thus be seen that the substantive legal provisions as well as the organisational structure for their implementation have been so worked out and structured as to promote a sound and scientific capital structure in tune with the changing requirements of industrial development.

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## INDUSTRIAL POLICY—PROSPECTS AND CONSTRAINTS

*K. K. Birla*

**I**NDUSTRIAL policy is a major limb of economic policy. Organically, it is linked both with the social and economic past and with the parallel processes of social and economic development. In its evolution are intertwined not only the circumstances of each country in respect of availability of resources, governmental powers and policies but also social values and traditions. To analyse it in all its implications means going through the various factors which have shaped it, the seemingly contradictory but possibly compatible objectives it seeks to subserve, the changing spectrum of the times against which it has to proceed, and so on. All this and other related aspects cannot be compressed within the space of an article. What is, therefore, aimed at is to give a broad idea of the industrial policy as it has evolved in this country, the results it has yielded in terms of industrial development and to highlight some of the constraints which are inhibiting growth.

Soon after Independence, the Government of India enunciated their ideas as to on what lines industrial development in the country should proceed through a Resolution on Industrial Policy which was adopted in April 1948, and subsequently modified in 1956. The Resolution emphasized that the industrial policy like other policies would be governed by the Directive Principles of State Policy as enshrined in the Constitution of India. The Resolution classifies industries into three categories depending on the role of the State:

- (i) Industries like arms and ammunition and defence equipment, atomic energy, iron and steel, coal, air-craft, railways, ship building, telephones, heavy electrical plants, electricity supply industry, will be the exclusive responsibility of Government.
- (ii) The second category consists of industries like aluminium, machine tools, basic chemicals, fertilizers, etc., which will be progressively State-owned and the State will take the initiative in establishing new units but private enterprise was expected to supplement the Government's efforts in these fields.

- (iii) The third category includes all the remaining industries, the future development of which will be left to the initiative and enterprise of the private sector. The Resolution emphasised that while the private sector will not be allowed to expand in the first category of industries, the public sector would have the option to extend its activities beyond the fields reserved for it under the Resolution.

The Industries (Development & Regulation) Act which was enacted in 1951 is one of the main instruments through which the objectives underlined in the Industrial Policy Resolution are sought to be achieved. The broad objectives of the Resolution were to be realised through licensing provisions and other regulations laid down under the Act. For industries mentioned in a special schedule in the Act, licensing was made compulsory for the establishment of new undertakings, for substantial expansion or diversification, for change of location, etc. The Act also provides for exemption under certain conditions.

#### SWAMINATHAN COMMITTEE'S ATTEMPT AT STREAMLINING OF PROCEDURES

The procedures for industrial licensing under the Industries Act were dilatory and time-consuming. This was realised by Government which set up a special committee under the chairmanship of Shri T. Swaminathan, with the objective of streamlining the procedures for industrial licensing and integrating the other related activities like the import of capital goods, issue of capital, foreign investment and collaboration required. One of its main recommendations for expediting the procedure was to introduce the concept of the 'letter of intent' which would be first granted to an entrepreneur for an expeditious disposal of the applications. The Committee recommended certain time schedules to be followed in the disposal of applications. Besides, certain industries which were considered basic and important were designated as key industries for which speedy processing of all applications was recommended.

The Swaminathan Committee was re-constituted again after about a year in order to study the working of the licensing procedures revised under its recommendations and to make further suggestions. The second Swaminathan Committee recommended *inter alia* that issuance of letter of intent/licence should be done directly by the Ministry of Industry instead of by the respective administrative Ministries concerned as this would result in saving of time. Another of its recommendations was to minimise the load of work on the licensing Committee and DGTD, and this was to be achieved by de-controlling a number of specified industries. Amongst other recommendations were minimisation of the long delays in routine work, better coordination in the Ministry of Industry, lapsing of letters of intent/revocation of licences delayed for avoidable or insufficient reasons, etc.

## LIBERALISATION OF LICENSING PROCEDURES

The deficiencies of licensing procedures remained even after the streamlining done according to Swaminathan Committee's recommendations. Government, therefore, appointed another special Committee called the Industrial Licensing Policy Inquiry Committee (Dutt Committee) which reported in 1969. Based on its recommendations, Government introduced in February, 1970, some revisions in industrial licensing policy. The main features of these can be briefly mentioned:

- Exemption from licensing according to criteria of assets and the foreign exchange involved. The exemption limit for industrial licensing which was raised to Rs. 10 lakhs of assets in land, building and machinery in 1960 and then to Rs. 25 lakhs in January, 1964, was put at Rs. 1 crore from February, 1970, under certain conditions.
- Categorisation of industries into core, heavy investment sector and middle area industries for the purpose of licensing.
- Separate criteria for licensing applicable to certain undertakings designated as larger industrial houses, dominant undertakings and foreign concerns which were not entitled to the exemptions granted to others.
- Reservation of industries exclusively for development in small scale sector. Discontinuance of the banned list for purpose of licences.
- Introduction of the concept of Joint Sector.

Further decisions regarding industrial policy were taken again in February, 1973, the main features of which are as follows:

- Definition of larger industrial houses was made to conform with that adopted in the MRTP Act, 1969 by adopting a lower limit of assets along with assets of inter-connected undertakings of not less than Rs. 20 crores. Larger industrial houses were made eligible to participate in and contribute to 19 group of industries which were considered to be of basic, critical and strategic importance for the growth of the economy.
- Time-bound targets were set for the issuance of various clearances, such as letters of intent, foreign collaboration approvals, capital goods clearance and MRTP clearances.
- An inter-ministerial committee of secretaries designated as the Project Approval Board (PAB) was set up and made responsible to give the overall supervision and guidance in the new system of industrial approvals. Existing approval committees such as Licensing Committee, Foreign investment Board, Capital Goods Committee will

function as committees of PAB. PAB has to deal with composite applications directly. A joint Licensing-cum-MRTP Advisory Committee was formed in order to facilitate the coordinated and timely disposal of licensing and MRTP clearances. PAB and other approval committees were to be serviced by a Secretariat for Industrial Approvals (SIA) which was formed as a separate division in the Ministry of Industrial Development. SIA was made responsible for receipt of applications, their processing through the concerned approval committees and for issuance of the final orders of Government in each case to the applicants within the prescribed time limit. It is also to monitor the implementation of the approvals by entrepreneurs, and to assist them in procedural matters.

—SIA is also equipped with an Entrepreneurial Assistance Unit which is intended to provide information on industrial licensing policy and procedures, status of various industries and other relevant matters, which might be of help to the new, small and medium entrepreneurs. The help of this Unit is also available to applicants for filling the necessary forms and for advising them with regard to the status of the applications in cases of delay beyond the prescribed target date.

Government hope that these steps towards streamlining of industrial approval procedures will result not only in speedy and orderly approvals but also in enforcing an expeditious translation of Letters of Intent and industrial licences into actual productive capacity.

## II

### FACTS OF INDUSTRIAL GROWTH

In the first upsurge of industrial activity after Independence, development of industry took place over a wide range, the main thrust having come from the private sector which had long since been responsible for development of industry in India. It covered consumer goods and many items of producer goods. Considerable capacity was established in consumer items like textiles, sugar, vanaspati and paper, rubber products, automobiles, engineering goods, chemicals, machinery, electrical equipment, transport equipment, etc. Between 1951 and 1960, industrial production expanded under planning by about 70 per cent. By 1970, when the Dutt Committee's recommendations were being implemented, there was further expansion despite an industrial recession in the last half of the sixties. The index of industrial production with base 1951 increased from 169.7 in 1960 to 306.8 in 1970, which means a rise of nearly 81 per cent. But as Table 1 shows, since 1970 there has been particular slowing down of industrial activity. The rate of growth has never



touched the targeted growth of 8-10 per cent. For 1973, industrial growth was only marginal.

TABLE I  
INDUSTRIAL GROWTH

<i>Year</i>	<i>Index</i>	<i>% increase over 5 years/previous year</i>
1951	100	
1955	122.4	22.4
1960	169.7	38.6
1965	261.0	53.6
1970	306.8	17.6
1971	315.8	2.9
1972	338.3	7.1
1973	338.8	0.2

In general, despite shortfalls from the targeted rate of growth, the achievements of the industry have been considerable. Every year many new items of industry have been taken up for manufacture, and new ranges of production established. Many machinery items can now be completely fabricated in India. Indian industry has not only been able to lay the foundation of a solid base for industrial growth but has been producing many sophisticated items both in the consumer and producer goods field. On the other hand, there are many gaps in the industrial structure. This is clear from the long list of (744) items of industrial products, the import of which would be allowed without ascertaining indigenous availability, because these items are either not manufactured in the country or their availability from indigenous industry is not likely in the near future. Besides technological gaps in the industrial structure, industrial development of the country has not been even geographically, and there are marked regional disparities. There is no doubt that there is constant vigilance on the part of the entrepreneurs as well as the Government to locate such gaps in the industrial structure and regional disparities, and take remedial measures to correct them. The recent slack in industrial production, however, is due to number of deep-rooted causes which have to be analysed carefully.

### III

#### CONSTRAINTS ON INDUSTRIAL GROWTH

##### *Industrial Regulation*

While regulation of industry was found to be a part of the planning process, its impact on industrial growth has been of a mixed character.

Entrepreneurs intending to set up a new industrial undertaking or effect expansion or diversification are required to go through a number of different stages of administrative clearance such as industrial licensing, foreign collaboration approval, import licensing, capital issues control, and in addition clearance under the Monopolies & Restrictive Trade Practices or (MRTP) Act. All these are step by step processes and require considerable time such as two to three years or even more before all the clearances are received.

This is not surprising. Administration of industrial regulation has been divided between half a dozen Ministries/Departments, viz., Industrial Development, Petroleum & Chemicals, Heavy Industry, Steel and Mines, Commerce and Electronics. Applications for setting up of industrial capacity are first scrutinised by the administrative Ministry concerned in consultation with the technical authorities like DGTD and placed before the Licensing Committee which has been brought into existence under the Industries Act. Decisions on the applications are taken by the Ministry of Industrial Development on the recommendations of the Licensing Committee.

#### *Delay in the Disposal of Applications*

In the past there have been various reasons for the delay as briefly noted above. Delay in the disposal of applications continues and appears to be inherent in the procedural system. There are two stages of applications in getting an industrial plant installed, viz., the issue of a Letter of Intent, and after fulfilling the conditions therein the issue of a formal industrial licence. The requirements for advertising when the imports are involved, or clearance from the indigenous availability angle was another reason for the delay but recently Government have issued a consolidated list of 744 items for the import of which it is not necessary for the entrepreneurs to follow the advertisement procedure as was the custom formerly. This is a step in the right direction.

There are, however, a number of other sources of delay. Arrangements of financial resources and foreign exchange through financial institutions involve some time just as technical screening by DGTD or other technical authority is time-consuming. Foreign collaboration terms for technical know-how and financial assistance require the approval of the Foreign Investment Board; sometimes location suggestions by the applicants are not acceptable to Government for one reason or the other. Hesitancy and lack of quick decision on the part of authorities have caused delay and confusion in the past. This has happened on important issues such as import of raw materials or components, optimum size of plants, installation of new units, additional capacity to be installed in the public or the private sector, location to be decided on consideration of economy or of regional growth, etc. A series of changes in the licensing policy since 1970 brought

within the purview of licensing a number of industries as well as existing units which have had to apply for carrying on business (COB) licences. A large number of applications since 1970 actually related to COB licences and there have been instances of delays and bottle necks in dealing with the COB Licences particularly when such applications are from undertakings coming within the purview of the MRTP Act. There are cases in which production had to be curtailed due to delay in the grant of COB licences and labour had to be retrenched.

#### IV

##### NO FOLLOW-UP AFTER LICENSING

Establishment of the SIA with time-bound targets for completion of different stages in the licensing process have, according to the reports received from industry, been useful in reducing the procedural delays to some extent. This, however, does not mean that all delays have been curtailed. As late as September 1974, instances have been brought to the notice of the Federation where industrial projects had to be dropped because Government had taken nearly 5 years without coming to a decision on the grant of an industrial licence. Besides, there are still certain important gaps, the most important of which is that no follow-up action is taken after a licence is granted to an entrepreneur. While the SIA has now been entrusted with the responsibility of processing of the applications at various stages, there is no way of knowing whether a letter of intent/industrial licence granted has actually led to the stage of production. A Licensing Implementation Section was created in the Ministry of Industrial Development sometime back to centralise the review of the Letters of Intent and licences. But the greatest handicap was that there is no effective centralised information gathering system within the Ministry of Industrial Development. The introduction of a card index system for keeping a watch on the progress of the applications through the various stages was made a few years back by a Departmental Committee. The problem is of a very large magnitude which can really be tackled by a modern electronic computer system. The question has been before the Government for a long time but only recently, it is understood, some practical steps are being taken to implement the proposal for an integrated information gathering system. Only when such a system starts operating, it may be possible to keep a follow-up of the implementation of the industrial licences.

##### *Integrated Approach Necessary*

Industrial policy does not consist simply in the granting of an industrial licence and assisting entrepreneurs to set up industrial capacity. The approach should be a total one under which industrial development should

be viewed from a broader perspective. Industrial development requires certain pre-conditions. Amongst these are the development of various infrastructure facilities, particularly power and transport. The problem of raw material supply is also another important aspect. Some raw materials come from imports; others are available from indigenous production. It is, therefore, necessary that a proper balance is maintained in the development of industrial structure. The industries producing important raw materials like steel, cement, aluminium and other non-ferrous metals, are basic in the sense that, if there is a shortfall in their production, the industries using their products as raw materials will not be able to utilise their capacity even if it already existed. While planning is intended to look on the problem of industrial development only from an integrated viewpoint like this, the actual facts have been otherwise. It is worth going into some details in this matter.

### *Power Problem*

The current power shortage which is affecting domestic consumers as well as industry equally are with us for nearly two years. There has been continuing deficit of power supply for the country as a whole for more than a year. The current deficit of power supply in the country has been estimated by the Government at nearly 20 million units per day. There have been power cuts imposed in various States extending to as high a percentage as 75 per cent. Such a huge deficit coming after 2½ decades of power planning is really baffling to any ordinary man.

Power development programmes have been taken up since the beginning of the First Plan and as much as Rs. 6,500 crores have been spent in power generation, transmission, and other programmes up to the end of the Fourth Plan. There has been a 9-fold increase in generating capacity from 2.3 million KW to 18.9 million KW as at present but the demand for power has outstripped supply because demand for power has been growing rapidly at about 12 per cent per year whereas the supply of power from Plan to Plan has fallen short of Plan targets. In fact, the physical targets of power generating capacity have never been achieved since the beginning of the Plan, the shortfall being on an average about one-third, which came to a maximum of 50 per cent during the Fourth Plan period. This is despite the fact that the actual expenditure from Plan to Plan has been well above the plan allocation for power development.

There have been a number of factors which have contributed to the acute power shortage. Amongst these, the most important are the delay in the implementation of the power projects, low utilisation of power-generating capacity already installed due to bad maintenance and lack of transmission

facilities and huge losses in transmission mounting as high as 30 per cent as against 6-8 per cent in foreign countries.

Financial resources and labour troubles have also contributed to the current power situation. The delay in the implementation of the power projects were the result of several factors like dissociation of the electricity supply industry which is administered by the Ministry of Irrigation and Power through the Central Water & Power Commission and the industry producing power-generating equipment which was administratively put under the Ministry of Industrial Development; power being a concurrent subject, State Governments are also involved in the implementation of the power projects. This causes delay. The current power shortage for which no respite is promised by Government in the immediate future is the cumulative effect of all these factors. The result is that not a single State in the whole country today is supposed to have surplus power according to a review of the power supply position for August 1974 by the Ministry of Irrigation and Power. Rajasthan, Madhya Pradesh, Kerala, Orissa, Himachal Pradesh, Delhi and the North Eastern Region are the only areas not facing a deficit. Industrial regions in the West and the East are chronically deficit in power, although the current power rationing in the Calcutta area seems to have brought about some improvement in power supply there. If this is the prospect of power supply to industry which consumes nearly 70 per cent of the power generated in the country, it is no wonder that industry has to suffer from under-utilisation of installed capacity and loss of production.

### *Transport Problem*

Transport shortage has been an equally chronic problem which the industry has had to face for a long time. While the Ministry of Railways have always produced figures of wagon movement and availability to show that they have been doing their best, the fact remains that the industry has been suffering from lack of transport for the movement of the raw materials and fuels like coal. Coal movement has, for some months past, been particularly short of requirements and is being felt not only in the Western Region which is away from the coal fields but also in the nearby areas in the Calcutta region also. The surprising thing is that while railway movement has been very much short of requirement and wagon shortage has been felt all over the country, the wagon building industry which has a capacity of nearly 40,000 wagons per year is faced with recession according to recent reports. With orders for about 15,000 wagons per year, the wagon building industry which is not only faced with under-utilisation of capacity and loss of production, has to retrench labour. Evidently, there is lack of coordination between the infrastructure Ministries like the Railways and the Irrigation and Power. Industrial development is suffering as a result of this with extremely low growth rates and almost stagnant production.

## V

## PROSPECTS

Stagnation in industry for the last few years is an indication of the fact that there has been some fundamental deficiencies in our basic policies and their implementation. Since India is engaged in a task of long term and overall development of the whole economy, the programmes and policies of today have to be geared in tune with the future requirements of the economy. A forward looking policy is, therefore, required, and has to be oriented towards the long term objective. There are a number of aspects of such a policy.

*Creation of Pre-conditions*

Advance development of infrastructure facilities like power and transport is an essential pre-condition for the success of any industrial policy. Therefore, power and transport development should be considered a part of the overall industrial policy and must be dovetailed into the overall planning programme. Development of infrastructure facilities requires sustained Government's spending directed towards increasing capacities in the required fields of power generation and transmission as well as transportation. There is a general feeling that increased expenditure is likely to add to inflation. This is likely to happen only if additional spending is for non-developmental civil purposes instead of increasing productive capacity. The general effect of such a step is likely to spread over the whole economy. Thus, fuller capacity in wagon-building industry with more orders from the Railway Ministry will revive immediately not only the wagon-building industry but along with it a number of other industries like the foundry, structural fabrication, non-ferrous metal industries producing alloys and castings, because these are service industries to engineering units. Steady and gradually increasing doses of spending for productive purpose are, therefore, essential for sustaining the growth of industry.

*Coordination Essential*

It is possible to argue that the plans for development of infrastructure like power and transport have not been so much at fault. In fact, as observed above, the targets for installation of generating capacity and transmission lines have never been achieved since the beginning of the First Plan. One of the greatest handicaps has been the delay in the implementation of power projects which is largely due to lack of coordination between the administrative Ministries concerned and lack of quick decisions. The administration of the power supply industry is, at present, divided between the Central and State Governments. The activities of different departments like the Ministry of Irrigation & Power, the CWPC, the State Electricity Boards have great scope for improvement. It is hoped that the re-structuring of the organisation of the power supply industry and revitalisation of the Central Electricity



Authority and the Regional and State Electricity Boards and proper coordination of their activities at the Centre by the Ministry of Irrigation & Power will considerably help in achievement of the targets for installation of power-generating capacity and transmission lines. In fact, power supply should keep ahead of the demand of the industry and should be planned accordingly.

The same is the case with the administration of railway movement which is, at present, characterised by shortage of wagons and various operational problems.

The order of priorities in industry is also a part of the industrial policy. Greater emphasis has to be laid on the development of agricultural input industries, consumer goods industries, manufacture of power and transport equipment, steel, cement, non-ferrous metals, fertilizers, and pesticides. Agriculture has an important role in the development of industry. This is because a large part of our industrial structure is agriculture based. Moreover, agriculture is still the largest source of income in the country and without a sufficient development of agriculture, national income cannot grow; nor can industrial output and the demand for the products of industry.

#### *Entrepreneurial Freedom Necessary*

Another important pre-condition is that industry has to be given maximum freedom within the current framework of industrial regulations. There should be a change of outlook in the administration of industrial regulations from one of distrust to one of cooperation, trust and assistance with the basic premise that the private sector entrepreneurship is an essential part in the development of industry. The present gamut of regulations and licensing has adversely affected development in important sectors like fertilizers, capital goods, basic metals, etc. There should be the minimum regulation of the entrepreneurs who should have as much freedom as possible in taking vital decisions regarding the need for new industry, diversification of capacity and planning of industrial investment. The current system of streamlining of procedures which has reportedly been useful should be reviewed after some time, and steps taken to carry out further improvements in this regard. The Department of Technical Development in the Ministry of Industrial Development should devote more attention in advising entrepreneurs on development prospects of various industries and related matters. The procedural and policy aspects of foreign collaboration should be determined clearly and general guidelines explicitly stated and made known to entrepreneurs.

#### *Financial Resources*

One of the greatest needs of industry today is financial resources. This has been realised by all concerned. All possible ways should be explored for



tapping investible sources, which, for one reason or the other, do not find their way into the capital market. Such a sector is the huge rural area. The rural sector can be explored by catering to the special needs of the rural areas by creating new capacities and introducing new products in the rural areas. Some priority may have to be provided for these industries. Industry itself should have the ingenuity to explore different avenues of rural consumption. Another alternative is to permit separate institutions to be set up by industry on voluntary basis in order to channelise rural savings towards industrial investment. Here is again another important reason why regulation on industry should be as little as possible.

### *Stockpiling*

An important problem for industry today is rising cost of men and materials. There have been cycles of shortages and surpluses of agricultural production as well as other basic industrial goods like steel, cement, paper, sugar, etc. Once costs go up, there is a pressure for increase in wages and prices of other inputs. One suggestion for smoothening out the fluctuations would be that in surplus years adequate stocks should be built up in anticipation of meeting the shortages when they actually occur in a future year. Stock-piling operations in respect of both agricultural goods and industrial raw materials will help arrest the increase in cost as well as reduce the need for industry to carry a large inventory. Stockpiling operations also serve as a policy instrument for price stabilisation.

### SUMMARY AND CONCLUSION

I have made an attempt in this article to analyse briefly the causes for current industrial stagnation. The slow rate of growth of industry today is the combined effect of a variety of factors of which the most important to my mind is the lack of realization of the need for an integrated approach towards industrial development. It is this which has resulted in delay in implementation of many projects according to schedule. Besides, it is also necessary to consider the private sector entrepreneur as a partner in economic development, and industrial regulations should have to be administered in a spirit of cooperation and trust. Licensing problems have to be viewed from the wider perspective. Only then the solutions would be easy to find. Despite the current stagnation in industry, I am an optimist who believes that, with the right attitude and the right industrial policies, viewed from a wide angle, the future of Indian industry is very bright. Given the right atmosphere for growth, the Indian industry can certainly fulfil the task of supplying consumer goods required by the people, producing the machinery and equipment needed by the industry and exporting in large quantities to earn valuable foreign exchange.

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# DEVELOPMENT BANKING IN INDIA'S INDUSTRIAL DEVELOPMENT—PROBLEM AND PERSPECTIVE

*M. K. Venkatachalam*

THE problem of raising the standard of living of the common man in developing countries is now increasingly being recognised as an international responsibility by all nations. International economic cooperation has thus become one of the important issues in fostering relations between different countries. Notwithstanding different levels of economic development, each country is undoubtedly endowed with one or other of the rich natural resources hitherto unexploited. What is required is mobilisation and pooling of resources on an international scale with mutual goodwill and understanding for bringing an allround economic betterment of people and removal of regional disparities. This is an important but a very difficult task. International development banking institutions such as the World Bank and its affiliates, Kreditanstalt fur Wiederaufbau of Germany and the Asian Development Bank, etc., have been conceived during the last twenty-five years to bring together national efforts to meet the new challenges of economic development.

International effort can only supplement but not supplant national effort of any particular nation, if overall results have to be achieved. In a developing country, the rate of growth of savings of the community is always small. Consequently, the capital markets remain shy for corporate investment, in industrial undertakings. It is by mobilising corporate investment that a country is able to make orderly progress in industrial development by exploiting its natural resources. Where such mobilisation is tardy and difficult, national development banks have to fulfil the role and act as catalysts and help the entrepreneurs as well as the State. By establishing and operating the national development banks meaningfully, advantage is also taken of the facilities available from international financing institutions for economic development.

## HISTORICAL BACKGROUND

As far as India is concerned, even at the time of Independence, it had as one of its major objectives in its struggle for political freedom, the raising of the economic living conditions of the common man. Even as early as

1931, the Indian National Congress had adopted a comprehensive resolution on economic policies. Almost immediately after Independence, the first attempt to work out an overall policy guideline for development was made by the Economic Programme Committee of the All India Congress Committee in 1947 under the chairmanship of the late Prime Minister Shri Jawaharlal Nehru. The Government of India then called an Industries Conference to consider various problems relating to the future policy of industrial development and, on the basis of deliberations at this Conference, formulated its Industrial Policy Resolution which was announced in April, 1948. The main features of the Industrial Policy Resolution of 1948 were almost similar to the recommendations of the Economic Programme Committee's report. A distinction was made between the respective roles of the public and private sectors and the fields for the two were demarcated. It is but appropriate to mention here that the country's leaders were fully conscious that, unless the State enters in a big way to foster industrial development, the private entrepreneurs by themselves in a country like India would not be able to develop particularly large basic industries with long gestation periods. It was therefore emphasised that the State must play a progressively active role in the development of industry. At the same time, it was agreed that private enterprise, properly directed and regulated would continue to play an important role. A list of basic industries of national importance was drawn up to indicate the field where planning and regulation was to be the responsibility of the Central Government. Proper encouragement to cottage and small scale industries and their development in coordination with other industries was emphasised. The participation of foreign capital which would be of value to the rapid industrialisation of the country particularly in sophisticated fields of modern technology was also recognised. The Resolution emphasised not only the need for increasing production but also its distribution and social aspects. Following the Industrial Policy Resolution, the Industries (Development & Regulation) Act, 1951 was passed as an Act of Parliament to direct and channelise investments in accordance with the priority of industrial development.

After the Constitution of India was adopted in 1950, the Industrial Policy Resolution was slightly revised in 1956. The slightly revised Industrial Policy Resolution of 1956 (mainly based on the earlier resolution of 1948) after citing the Constitutional provisions relating to the economic objectives, mentioned that the Parliament had accepted in December, 1954, the socialist pattern of society as the objective of social and economic policy. The acceleration of the rate of economic growth and the speeding up of industrialisation, with particular attention to heavy industries and machine building industries, expanding the public sector and developing a large and growing cooperative sector, were emphasised as essential for laying the economic foundations for the betterment of the people.

The Resolution classifies industries into three categories having regard to the role which the State will play in each of them:

- (i) industries, the future development of which will be the exclusive responsibility of the State, such as, arms and ammunition and allied items of defence equipment, atomic energy, iron and steel, heavy electrical plant, heavy plant and machinery, coal and lignite, mineral oils, railway transport, shipbuilding, generation and distribution of electricity, etc.
- (ii) industries, which will be progressively State-owned and in which the State will generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State, such as, aluminium and other non-ferrous metals, machine tools, ferro-alloys and tool steels, antibiotics and other essential drugs, fertilisers, synthetic rubber, chemical pulp, road transport, etc.
- (iii) all the remaining industries in respect of which future development will, in general, be left to the initiative and enterprise of the private sector.

In the year 1956, the Indian Companies Act, 1913 was comprehensively amended and replaced by the Companies Act, 1956. The changes were quite comprehensive to take into account the new social and economic policies of Government.

In the same year, Parliament also passed the Securities Contract and Regulation Act, 1956 in order to regulate the functioning of the Stock Exchanges in the country. The amendments to the Companies Act and the passing of the Securities Contract Regulation Act were intended to ensure orderly and healthy growth of the corporate sector which are necessary for mobilisation of resources for industrial development, diffusion of ownership of companies and enthusing public investment interest in corporate enterprises.

#### ESTABLISHMENT OF DEVELOPMENT BANKS

It is against this historical development of a well-coordinated Industrial Policy framed by Government suited to the genius and capacity of the people of this country, all India and State level Development Banking Institutions came to be established, one after the other, since the year 1948, depending upon the needs of the industry.

The Industrial Finance Corporation was the first all-India term lending institution set up under the Industrial Finance Corporation Act, 1948. This

was followed by legislation for establishing complementary State level institutions known as State Financial Corporations under the State Financial Corporation's Act, 1951. The structure of these two laws provide for the Central and the concerned State Governments respectively guaranteeing : (i) the share capital, (ii) dividend at minimum rates on it, and (iii) loans and debentures raised by these corporations. Though the State Financial Corporations were placed under the administrative jurisdiction of the concerned State Governments, the Reserve Bank of India's Industrial Finance Department, has been performing the coordinating function, and, as an expert body, has been advising them practically in all their operations.

In 1955, with the prospect of getting large foreign exchange loans from the World Bank, the Government of India agreed to the promotion in the private sector of another all-India term lending institution, namely, the Industrial Credit and Investment Corporation of India Limited.

In 1956 all the Life Insurance Companies were nationalised and the Life Insurance Corporation of India was formed. The share capital of Life Insurance Corporation of India is wholly held by the Central Government.

In 1958, in order to utilise the American counterpart funds for helping industry, Refinance Corporation for Industry was incorporated as a limited company under the Companies Act whose share capital was subscribed by the Reserve Bank of India, the Life Insurance Corporation of India and a few commercial banks. Its main function was refinancing commercial Banks which gave term loans to industry.

In 1963, the Unit Trust of India was formed when the industrial development was picking up with the help of development finance provided by the financial institutions, while the capital market continued to be shy.

In 1964, a need for the Development banking to have a coordinating agency was felt. It was also thought that such a coordinating agency should preferably be kept under the Central Banking authority of the country on the model of the Canadian Development Bank. Accordingly, Industrial Development Bank of India was established under the Industrial Development Bank of India Act, 1964 as a wholly owned subsidiary of the Reserve Bank of India. The Central Government and the Reserve Bank of India's shareholding in the Industrial Finance Corporation were transferred to the Industrial Development Bank of India and further shares were issued by the Industrial Finance Corporation wholly subscribed by the Industrial Development Bank of India so that the Industrial Development Bank of India became a 50 per cent shareholder in the Industrial Finance Corporation. The Industrial Development Bank of India has been conceived not merely as one

more direct financing agency, but as a refinancing and rediscounting agency as well as a promotional agency. In view of its refinancing functions, it was felt no longer necessary to retain the Refinance Corporation for Industry as a separate body; it was merged with the Industrial Development Bank of India.

In 1971, a new institution known as the Industrial Reconstruction Corporation of India Limited, was established as a limited company mainly to look after the sick and closed industrial units as a 55 per cent subsidiary of the Industrial Development Bank of India. Its initial operations were to be confined to the State of West Bengal and to the eastern region with headquarters at Calcutta.

The share capital structure of the all-India financial institutions at present is as follows:

(1) INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

IDBI, established in 1964, is wholly owned by the Reserve Bank of India which is wholly owned by the Central Government.

(2) INDUSTRIAL FINANCE CORPORATION OF INDIA (IFCI)

The share capital of IFCI established in 1948 (wholly guaranteed by the Central Government with guarantee for payment of dividend at minimum rates) is as follows:

(i) IDBI	50%
(ii) Life Insurance Corporation and General Insurance Companies	20%
(iii) Scheduled Commercial Banks	20%
(iv) Cooperative Banks	7.71%
(v) Others (Trusts and Charitable Institutions)	0.29%

(3) LIFE INSURANCE CORPORATION OF INDIA (LIC)

The entire share capital of LIC established in 1956 is held by the Central Government.

(4) UNIT TRUST OF INDIA (UTI)

The share capital of UTI established in 1963 is:

(i) Reserve Bank of India.	50%
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(ii) Life Insurance Corporation of India	15 %
(iii) Industrial Finance Corporation of India	15 %
(iv) State Bank of India and subsidiaries	15 %
(v) Industrial Credit and Investment Corporation of India and others	5 %

(5) INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI)

The share capital of ICICI established in 1955/56 is:

(i) Foreign shareholding	30 %
(ii) Public sector banks	about 48 %
(iii) Public share holders—approximately	22 %

(i) STATE FINANCIAL CORPORATIONS (SFCs) (except in the State of Tamil Nadu)

SFCs established in various years from 1952 onwards—The share capital (wholly guaranteed by the concerned State Government with a guarantee for payment of dividend at minimum rate) is:

(a) State Governments	20 %
(b) Reserve Bank of India	20 %
(c) Life Insurance Corporation and Scheduled Commercial Banks	about 40 %
(d) Others (Trusts and Charitable Institutions)	20 %

(If the others do not subscribe, the balance of the share capital is held by the Reserve Bank and the State Government in equal proportion. In many State Financial Corporations, the Reserve Bank and State Government together hold nearly 60 per cent share capital).

(ii) TAMIL NADU INDUSTRIAL INVESTMENT CORPORATION LIMITED (TNIIC) (serves as a S.T.C. for the State)

Share capital of TNIIC established in 1948 is:

(a) Share capital held by the Tamil Nadu State Government	51 %
(b) Others	49 %



## INDUSTRIAL RECONSTRUCTION CORPORATION OF INDIA (IRCI)

The share capital of IRCI which was newly started in 1971, is ;

(i) Industrial Development Bank of India (including 5 per cent of IFICI)	55%
(ii) Public Sector Banks	38.5%
(iii) Life Insurance Corporation of India	4%
(iv) Industrial Credit and Investment Corporation of India	2.5%

The Central Government as a sponsoring authority, has provided interest free loans of Rs. 7.5 crores in 1955, Rs. 10 crores in 1964 and Rs. 10 crores in 1971 to ICICI, IDBI and IRC respectively, repayable in 30 years with initial moratoria periods of 15 years. These sums provided the seed capital of these institutions.

In common parlance, we have been reconsidering IDBI, IFC, ICICI, SFCs, and IRCI as the developmental term lending financial institutions. LIC and the UTI are considered as investment institutions. They, however, work in collaboration with the developmental institutions in so far as they assist in financing industry. IFC and ICICI finance medium and large scale industry with rupee and foreign currency loans. Foreign lines of credit are made available to IFC and ICICI by the International Development Banks, such as the World Bank, KFW of Germany, Banque Francaise du Commerce Extérieur France and UK/India Investment Loan, etc., as part of international efforts to help developing countries, as already mentioned. From out of these lines of credit, the National Development Banks are able to lend money in foreign currency to industrial concerns for import of essential equipment. Of the two, IFICI has emerged as a specialised institution for financing industrial cooperative societies mainly sugar and, to some extent, textiles. The Life Insurance Corporation of India participates in such direct financing as a minor partner. IDBI not only finances medium and large scale industry directly with rupee loans but also refinances commercial banks and SFCs with rupee loans in the field of industrial finance. Recently IDBI has negotiated for a foreign line of credit of \$ 25m from the International Development Association, an affiliate of the World Bank for sub-lending to SFCs for medium and small scale industries.

SFCs normally give loans to small and medium industries. Under the statute, no SFC can grant assistance exceeding Rs. 30 lakhs. It cannot

also grant assistance to any industrial concern whose paid-up capital and reserves exceed Rs. 1 crore. Loans exceeding Rs. 30 lakhs to medium and large industries are generally extended by IFC, up to a limit of Rs. 2 crores. Loans exceeding this limit are granted by IDBI in consortium with the other institutions and banks. ICICI largely finances industry requiring foreign currency loans though it also grants rupee loans normally not exceeding Rs. 1 crore to a single concern. Thus, IFC, ICICI and IDBI and SFCs look after the entire field of industrial finance, *i.e.*, assisting small scale, medium scale and large scale industry, with rupee and foreign currency loans. Besides granting loans, they also underwrite issues of capital and directly subscribe to such issues. They also guarantee deferred payment liabilities for import of machinery as well as for purchase of indigenous machinery.

As already stated earlier, LIC and UTI are mainly investment institutions. In the field of development finance, they participate in granting assistance mainly in the shape of giving underwriting support to issues of capital by companies in participation with the other institutions. To some extent LIC also grants loans in participation with other institutions. UTI does not grant loans.

Thus, in short, all these institutions grant assistance of various types, *viz.*, extending underwriting support to issue of capital, direct subscription to capital, guaranteeing deferred payments and also granting rupee and foreign currency loans.

It will not be out of place to mention in this connection, that independently of the efforts of the Central Government, different State Governments also have established State Industrial Development Corporations, State Industrial & Investment Corporations to promote medium scale and small scale industries. The operations of these institutions are not yet integrated or coordinated with the working of the all-India financial institutions except to a very small extent. A Study Group is now engaged in working out details of how the efforts of these State level institutions could be coordinated with the activities of the State Financial Corporations and to IDBI and other all-India institutions, so as to make the operations of those corporations more meaningful.

Another important development which took place during the sixties was the growth of small-scale industry in our country. In matters of basic facilities, financial assistance and the supply of raw material, special concessions were accorded to industrial concerns with investments below Rs. 7.5 lakhs, because it was felt that small units would generate greater employment and at the same time would be in keeping with Government's policy of diffusion of ownership of the means of production. To encourage commercial banks and State Financial Corporations to finance small-scale industry,

without any hesitation about risks of failure of investments, Government in consultation with the Reserve Bank of India initiated a scheme of credit guarantee for small-scale industry. On payment of a small premium, the loans granted by the banks and institutions are insured by the agency. The scheme has been administered by the Reserve Bank with great success and it has been a major factor in the progressive increase in the provision of financial assistance by commercial banks and other eligible institutions to small-scale industry.

#### INDUSTRIAL DEVELOPMENT BANK OF INDIA AS AN APEX INSTITUTION

The Charter IDBI is very wide. Besides granting direct assistance to various types of industries, it refines assistance given by SFCs, commercial banks and cooperative banks; it also rediscounts bills of exchange for purchase of capital equipment, discounted by banks. Amongst the institutions, it is a lender of the last resort, in the sense, that where no other institution can afford the risk of lending to an enterprise with large loans or lending to concerns established in backward areas, IDBI undertakes the risk of lending to such enterprises even on soft terms in the long term public interest. In the field of exports, besides extending refinancing and rediscounting facilities, it extends financial support for execution of turn-key projects abroad.

In this way IDBI, in its turn, extends its international cooperation to countries which are comparatively even less developed than India.

IDBI has a Development Assistance Fund within itself. There may be occasions in which a particular project may have to be promoted and which may not receive assistance from other institutions in the ordinary course of their business. On the other hand, Government may consider the project to be a matter of priority in the interest of industrial development of the country. Such projects are assisted by IDBI from the Development Assistance Fund. Being a Development Bank, in collaboration with the other institutions, the Reserve Bank and the State Governments, it carried out surveys of industrial potential in the backward States and initiated follow-up action in regard to preparation of feasibility reports, search for an identification of prospective entrepreneurs, development of specific projects for implementation with active assistance from the institutions. With a view to providing technical service to new entrepreneurs and financial institutions which give term finance to industry, IDBI has set up industrial and technical consultancy service centres in Kerala and in North East India known as 'KITCO' and 'NEITCO'. Recently, a similar consultancy organisation for Bihar has also been established.

We have thus in India a broad-based pyramidal structure of financial institutions with the State Financial Corporations at the base, IDBI at the top, and the other institutions in the middle, to look after the entire gamut of industry. IDBI has thus come to function as an apex financial institution in financing large projects by arranging consortium of institutions and banks.

All these financial institutions enjoy fiscal relief from Government. Ten per cent of the total incomes of IFC and ICICI and IRCI and 40 per cent of the total income of SFCs are exempt from income tax. The exemption is subject to the condition that the amounts of total income so eligible for exemption is credited to a special reserve. IDBI and UTI are totally exempted from income tax. The total income of LIC is subject to tax under a special schedule to the Income Tax Act. These fiscal reliefs enable the institutions to conserve their profits for building up their reserves and thus be of greater assistance to industry.

#### GROWTH OF LARGE INDUSTRIAL HOUSES

While the progress being made by these institutions was commendable in encouraging industrial development consistent with the country's social and economic policy, it was felt necessary to ascertain how far the operation of the economic system as a whole followed by Government so far had resulted in concentration of wealth in a few hands. As a matter of fact, even as early as October 1960, a Committee under the chairmanship of Prof. P.C. Mahalanobis had been formed to examine how the operation of the economic system had resulted in the concentration of wealth and means of production. On the recommendation of this Committee, in April 1964, a Monopolies Inquiry Committee was appointed. This Commission went into detailed classification, compilation and analysis of the assets of large industrial groups based on the control, ownership and management over various companies by interconnected undertakings, directorships, managing agency and selling agency agreements, etc., and classified the industrial concerns under 75 groups for the first time. The number of companies, included in each group as also the number of companies having not less than Rs. 1 crore of assets were also classified. On that basis, 1536 companies with aggregate assets of Rs. 2665.95 crores as on 31st March, 1964 and with paid-up capital of Rs. 646.32 crores were grouped as belonging to the aforesaid 75 business groups. They were also ranked in the order of their assets. This was the very first occasion in which the industrial concerns which were being established throughout the country by different industrial interests, were formally classified into 75 business groups by an expert body. The Commission also suggested the enactment of the Monopolies & Restrictive Trade Practices Act, which was later passed into law by Parliament in 1969.

Following these studies by the Monopolies Inquiry Commission, the Planning Commission conducted a study through a Study Group headed by Dr. R. K. Hazari, to look into the licensing applications made by business groups and their share in the investment applied for and approved over a period. This Committee came to the conclusion that the large and medium-sized business groups enjoyed a higher ratio of approval in licensing applications as compared to others and that their share in the investment, applied for and approved, had tended to rise over the period. On the basis of this recommendation, Government appointed an Expert Committee known as the Industrial Licensing Policy Inquiry Committee. This Committee adopted the same classification of the industrial concerns under different industrial groups as the Monopolies Inquiry Commission. It enquired into the working of the industrial licensing system during the earlier 10 years, *i.e.*, 1956 to 1966 and came to the conclusion that there has been some pre-empting of licensed capacity by certain industrial groups and that the policies followed by the financial institutions, such as IFC, ICICI, LIC, SBI, etc., in advancing loans to industry had resulted in some undue preference being given to large industrial houses.

The recommendations of ILPIC were considered by Government in February, 1970. The salient features of the decision taken by Government on these recommendations which are relevant here, are narrated below:

- (i) A list of core and heavy investment sector industries was drawn up. Except for industries reserved for the public sector under the Industrial Policy Resolution of 1956, undertakings belonging to the larger industrial houses would be expected along with other applicants to participate in and contribute to the establishment of industries in the core and heavy investment sectors, leaving the opportunity in the remaining sectors primarily to other classes of entrepreneurs.
- (ii) The 'joint sector' concept in industry, in which both the State and private sector will participate, was accepted in principle. Major industries in core and heavy investment sectors would ordinarily be established in the 'joint sector'.
- (iii) With the acceptance of the 'joint sector' concept in principle, it will be ensured in future that there is a greater degree of participation in management, particularly at policy levels, in the case of major projects involving substantial assistance from public financial institutions. The public financial institutions will also, as part of their financial assistance arrangements, exercise option of converting loans given and debentures issued in future, either wholly or partly into equity within a specified period of time.

Following this, certain operational guidelines were issued by the Government to the financial institutions in June, 1971. The most important of the guidelines relate to the stipulation of the convertibility clause in all cases of substantial loans/debenture assistance where the aggregate financial assistance by all the five All-India institutions (*viz.*, IDBI, IFCI, ICICI, LIC and UTI) exceeds Rs. 50 lakhs, and also nomination of directors on the Boards of assisted concerns, for meaningful participation at policy levels, in the management of those concerns.

In the meanwhile, in July 1969, 14 major commercial banks were nationalised in order to bring within the control of the State the credit flowing into the economy so as to ensure the orderly growth of industries as well as economic development within the country.

#### LENDING POLICY OF THE DEVELOPMENT BANKS

From the history of industrial licensing and industrial financing policy followed by Government, till the end of 1966, the industrial financing institutions did not generally look to something more than merely granting assistance to industrial concerns which approached them.

Only in 1967, when IDBI established itself somewhat firmly and the Monopolies Inquiry Commission had submitted its report, IDBI took a policy decision in consultation with the other member institutions to adopt certain norms so that in financing an industrial concern there should be a minimum level of investment by the promoter, depending upon whether he belonged to a large industrial house or otherwise. The formula was that the promoter's minimum contribution to a new project should ordinarily be 20 per cent of the project cost, if it belonged to a large industrial house and 15 per cent of the project cost, if it belonged to other parties. The project cost included share capital, loan capital, deferred payment guarantees, etc. Insofar as deferred payment guarantee, are concerned, it was more of an indirect assistance to a project, as by the time the project generated resources, the project itself would repay the cost of the equipment.

With the nationalisation of banks in July 1969, following closely the publication of the report of ILPIC, the institutions and banks began to have a closer look, than hithertofore, at their assistance to industrial concerns belonging to the various large industrial houses. The working of the public sector banks financing short term credit and of the institutions financing long term credit is becoming increasingly closer.

The Monopolies & Restrictive Trade Practices Act which was enacted in 1969, was brought into force with effect from 1st June, 1970. A little earlier



on the 4th April, 1970, the managing agency system hitherto prevalent in the corporate sector for decades, was abolished. With the abolition of the managing agency system, and the statutory definition of monopolistic undertakings, and interconnected undertakings, the classification of the industrial concerns as belonging to 75 large industrial houses, by the Monopolies Inquiry Commission, and adopted by the Industrial Licensing Policy Inquiry Committee has now undergone a change. Government considered that the definition of large industrial houses to be adopted for licensing restrictions should be in conformity with that adopted in MRTP Act, 1969. The definition adopted in that Act is on the basis of a lower limit of assets, along with assets of interconnected undertakings of not less than Rs. 20 crores. The contradiction between the definition of large industrial houses for licensing purposes as based on ILPIC report and for the control of concentration of economic power based on MRTP Act 1969, has, therefore, been removed. Under the new classification based on MRTP Act, 1969, the industrial concerns are now classified under 51 groups, comprising 1477 concerns with aggregate assets of Rs. 4,339.03 crores, as of the year 1969-70.

It is necessary in this context to explain briefly the implementation of the convertibility guidelines issued by Government.

#### ADMINISTRATION OF THE CONVERTIBILITY GUIDELINES

The conversion of institutional loans into equity, as mentioned earlier, is not something new in the field of industrial finance. As has been narrated elsewhere, capital market in India is shy. For a project with long gestation period which requires substantial financial outlay, it is difficult for an entrepreneur to have a broad and sound equity base to start with. He has necessarily to start with a narrow equity base. Initially, institutional support by way of large term loans or debentures is necessary. After the project has been established and has commenced commercial production and has been able to declare a maiden dividend, it is but appropriate that the entrepreneur should think of planning the capital base of the company on a long term footing. It is not unknown that companies of their own volition do issue convertible debentures to be converted into equity at the appropriate time. International financial institutions finance enterprises in foreign countries with stock option agreements for converting a portion of their capital into equity and thus derive the benefit of increased yield on their investment.

It is against this background only that the convertibility guidelines have been drawn up by Government to govern assistance given by the five all-India term lending institutions. As already explained the institutions, in this context are IDBI, IFC, ICICI, LIC and UTI. The terms and conditions on which the loans to be converted into equity share capital



will be stipulated in the assistance agreement between the institutions and the companies before it is entered into and it will be within the scope of the provisions of section 81(3) of the Companies Act, 1956, read with the relevant enabling provisions contained in the respective Statutes under which the institutions have been set up. Section 81(3) of the Companies Act specifically provides that before any company agrees to borrow a term loan or issues debentures with convertible rights, it shall have to get a special resolution passed by its general body of shareholders and also obtain the previous approval of the Central Government. For passing a special resolution in a general body meeting, a majority of 75 per cent of the members present and voting is necessary. Thus the shareholders have sufficient opportunity of being apprised by the company of the need for raising resources in the shape of convertible loans or debentures for establishing the project.

Option to convert loans into equity share capital will be exercised on a judicious basis by the institutions. It will be done in such manner and at such time as to avoid any undue violent fluctuations in the market value of the equity shares at the time of conversion which may affect the interests of the equity shareholders of the company and also of the institutions, particularly LIC and UTI which may hold market investments, and also avoid any serious imbalance in the ratio of debt to equity capital of the company.

The convertibility clauses are applicable only to future loans and the option will be exercised on the basis of the terms and conditions incorporated in the agreement entered into before the loans are advanced to the company and the entrepreneur is fully kept in the picture. The participation in the management of the company by the nominees of the financial institutions will not be in the day-to-day management but will only be at policy level as already stated above in the case of major projects involving substantial assistance from the institutions.

#### ASSISTANCE TO BACKWARD AREAS

The country has built a sound industrial base. Yet, there are several regions in the country which are industrially less developed. This is so not only among States but also within different parts of developed States themselves. Regional imbalances will have to be rectified to ensure a balanced industrial growth throughout the country. The financial institutions have, therefore, evolved schemes for providing assistance on concessional terms to industrial concerns set up in backward areas. The schemes were announced apropos of the reports of the two Working Groups set up by the Planning Commission to extend concessional finance for projects to be located in less industrially developed districts/areas notified as such. These concessions are also applicable to expansion projects. There is an overall ceiling in respect of

loans extended on concessional terms by these institutions, the ceiling being Rs. 2 crores. The salient features of the scheme of concessional finance comprise: (a) concession in the rate of interest, viz., 8.5 per cent against the normal lending rate of 10.25 per cent; (b) longer initial grace period and extended amortisation period depending on the merits of each case; (c) reduced margin of security; (d) lower contribution by the promoters to the cost of the project and larger participation by the institutions in the capital of the assisted projects; (e) a 50 per cent reduction in the institution's normal service charges in respect of commitment charges, underwriting commission, non-refundable examination fee for processing the loan applications and legal charges.

#### RESTRUCTURING IDBI

Thus far we have examined the evolution of the different financial institutions and the policies followed by them in lending to large industrial houses, new entrepreneurs and development of backward areas. Now the time has come to take stock of the situation as to how best to coordinate their activities much more meaningfully than hitherto. IDBI has completed 10 years of its active life in the development of industry. In the last few years, it has also been taking increasing part as an apex institution. In order to strengthen its usefulness further in the field of industrial finance as also to lighten the heavy burden of the Reserve Bank of India which has to perform its own delicate and complex task as the Central Bank of the country, Government have recently decided to make IDBI as an independent principal financial institution in the field of development banking.

Besides financing industry, it will coordinate the working of other financial institutions engaged in the financing or promotion or development of industry. The financial institutions, in this context, include the Industrial Finance Corporation of India, the Life Insurance Corporation of India, the Unit Trust of India, the Industrial Reconstruction Corporation of India Ltd., the State Financial Corporations, all in the public sector, the Industrial Credit and Investment Corporation of India Ltd., in the private sector and such other institutions as may be notified by the Central Government in this behalf. Besides these, the State Bank of India, its seven subsidiary banks, the fourteen nationalised banks, scheduled banks and the State cooperative banks are also proposed to be brought within the purview of coordination by the Development Bank as these institutions participate with the Development Bank and other term lending institutions in financing industry.

To achieve these purposes, a Bill known as the Public Financial Institutions Laws (Amendment) Bill was introduced in Parliament in December, 1973 and the Bill is now before a Joint Select Committee of Parliament. The

salient features of the Bill now before the Joint Select Committee are briefly indicated below:

- (i) The share capital of the Industrial Development Bank of India now wholly owned by the Reserve Bank will be transferred to the Central Government.
- (ii) There will be an independent broad-based Board for the Industrial Development Bank of India. There shall be a Chairman and Managing Director appointed by the Central Government, provided the same person may be appointed to function both as Chairman and as Managing Director. A Deputy Governor of the Reserve Bank nominated by the Reserve Bank will be on the Board. In addition, not more than 18 Directors will be nominated by the Central Government of whom: (a) two directors shall be officials of the Central Government, (b) five directors will represent the all-India long term financial institutions, (c) six directors will represent the 22 public sector banks and the 18 SFCs, and (d) five persons will be those having special knowledge or practical experience in science, technology, economics, industry, industrial cooperatives, industrial finance, etc.
- (iii) The Industrial Finance Corporation will be left as it is without any restructuring of its capital with 50 per cent of its shareholding continuing to be held by the Industrial Development Bank of India.
- (iv) In regard to the Life Insurance Corporation, its share capital is already held wholly by the Central Government. There will, however, be a nominee of the Industrial Development Bank of India on the Board and the Investment Committee of the Life Insurance Corporation in addition to its existing members.
- (v) Fifty per cent of the initial capital of the Unit Trust of India is at present held by the Reserve Bank of India. This 50 per cent shareholding will be transferred to the Industrial Development Bank of India without any disturbance to the other shareholding.
- (vi) As regards the State Financial Corporations, the shareholding held by the Reserve Bank in the different Corporations will be transferred to the Industrial Development Bank of India. The nominee of the Reserve Bank, however, will be retained on the Boards of these Corporations besides those of the Industrial Development Bank of India.
- (vii) There will be no restructuring of the capital of the Industrial Reconstruction Corporation of India as it is already a subsidiary of the Industrial Development Bank of India and it will continue to be so.

- (viii) In regard to the Industrial Credit & Investment Corporation of India, there will be no disturbance to its capital structure but its relationship with the Industrial Development Bank of India will be brought closer. It is proposed to have a nominee of the Industrial Development Bank of India on the Board of Industrial Credit & Investment Corporation of India.

#### PROBLEMS AND PERSPECTIVES

As has been explained in the preceding paragraphs, IDBI has gradually come to function as a principal financial institution in the field of industrial finance. In the field of small-scale industry, it has been playing a notable part. Much more, however, remains to be done in the field of removing regional disparity in development and in encouraging new entrepreneurs. With the increase in the general level of prices allround, even projects with a moderate level of investment have now to be financed jointly by more than one institution. Large core sector projects have necessarily to be financed by a consortium of institutions and banks. IDBI has, therefore, to evolve methods of joint approach towards appraisal of such projects to eliminate delays in separate appraisals by the different lending institutions.

The institutions have commenced writing in convertibility clauses in all cases of substantial assistance to industrial concerns in the private sector. They have also been nominating directors on the Boards of assisted concerns to participate meaningfully in the management of such enterprises at policy levels. Besides this, LIC and UTI have invested the savings of the common man in the corporate sector. It is, therefore, necessary to utilise these nominations to ensure that the health of the assisted units is properly monitored in the overall public interest of the growth of the corporate sector. The nationalisation of some of the industries and take-over of certain sick or closed industrial undertakings have shown that lack of proper management has been one of the causes for the sickness of many of the units. With the majority of the banks being in the public sector, a time has come to coordinate short term lending with long term lending in a more cohesive and integrated manner, so that the funds of these institutions invested in the various enterprises are fully safeguarded and put to proper use. Only an expert body like IDBI with its expertise would be able to study the health of not only individual undertakings but also an industry as a whole. It is this wide and long range perspective, which prompted the decision to enhance the position of IDBI as a principal financial institution with its own independent status.

It will be relevant to recall in this connection the observations of the then Finance Minister, late Shri T.T Krishnamachari made in 1964 even at

the time of piloting the Bill to establish the IDBI:

"We are envisaging the new IDBI as a Central Coordinating agency which *ultimately* will be concerned directly or indirectly with all problems or questions relating to the long term and medium-term financing of industry and will be in a position, if necessary, to adopt and enforce a system of priorities in promoting future industrial growth." (underlined mine.)

Now as a decade has passed and the IDBI has come of age, the time has now come for establishing it as an independent institution with a Board of Directors of its own and full-time expert staff, and this is what the new Bill is proposed to promote.

#### CONCLUSION

It is anticipated that the restructured IDBI:

- (i) would centralise the study of all projects which are submitted by private entrepreneurs to one or other of financial institutions, for which purpose it would build up common expertise.
- (ii) By this means, it would avoid delay in the sanction of loans to new undertakings by coordinating the grant of working capital finance with commercial banks.
- (iii) It would institute studies in regard to individual units or for specific industries; it would maintain such liaison with Government wherever it may see signs of shortages of production in respect of any industry; and it would take appropriate steps to avoid sickness of any industrial undertaking by timely remedial action.
- (iv) It would provide entrepreneurial guidance and advice as well as assistance to medium scale entrepreneurs who are today unable to implement their manufacturing programmes because they have no command over technical and managerial resources of the type that are available with the Large Houses.
- (v) It would keep close supervision over investments made by public financial institutions in different industrial undertakings. It would take follow-up action after investments are made, and study the progress of project implementation as well as working of a project.
- (vi) It might take such measures as are necessary to ensure that where desirable, the assisting institutions have the right to make fundamental changes in management to prevent a concern from going sick.

- (vii) It should function as an Export & Import Bank to increase international trade with India and also help other comparatively less industrially developed countries.

The task ahead, however, is still more difficult but it is hoped that it will not be beyond the capacity of IDBI and the other institutions with their men and material to cope with these increased responsibilities. The broad-based Board of the Development Bank would result in the impulses of the State Level institutions and banks being felt on the working of IDBI, while IDBI in its turn with its nominees on the other institutions will be able to direct and guide the member institutions. There is every hope that the restructured IDBI with the help of these institutions and banks will be able to play a still more effective role than hitherto in ensuring a balanced regional industrial development of the country following its surveys conducted by it of the various under-developed States of India. The country can take legitimate pride in what has been achieved so far by each one of these institutions since their respective dates of inception.

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## FINANCES OF THE STATE DEVELOPMENT BANKS

*Miss M. S. Ramesh*

DEVELOPMENT Banking world over is largely a post-war phenomenon. These Development Banks were visualised as instruments for promoting and accelerating economic development. Our country also has been no exception to this general rule of creation of development oriented financial institutions. The industrial credit land-scape in India is now fairly clearly dotted with numerous industrial financial institutions. It was in 1948 that the Industrial Finance Corporation was started. In the early 50s, a number of State Financial Corporations were floated. This whole process culminated in 1964 when the Industrial Development Bank of India was set up as a separate institution for attending to the promotional and development work in the field of industries.

A basic issue in the organisation and the pattern of growth of these Development Banks is the manner in which resources have been raised and used by them. In this article, it is proposed to study the manner in which these Development Banks at the State level mobilised resources and utilised them for their activities. Such an analysis, it is hoped, would clarify the nature, the character and the range of operations of these State level financing corporations.

Historically speaking, the *Mac-Millan gap* in the industrial finance field at the State level in our country was recognised as early as 1931 by the Indian Central Banking Enquiry Committee. In its Report, this Committee had recognised the need for the evolution of some machinery to cater to the financial requirements of small and medium-sized industrial concerns at the regional levels. The Bombay Economic and Industrial Survey Committee (1940) had also drawn attention to this gap. It is noticed that the Central Government was aware of this lacuna, as, while introducing the Industrial Finance Corporation Bill to the Select Committee of the Central Legislature, the then Finance Minister, Sir Shanmugam Chetty, referred to the need for creating a machinery to provide financial assistance to small and medium-sized industrial concerns at the State level. The Government of India recognised that while there was no dearth of All-India Financial Bodies for promoting the development of large-scale industries, there was no counterpart at the State level for attending to the medium and small-scale industries. It was



accepted that the *ad hoc* methods by which the State Government tried to provide loans to small-scale industries under the State Aid to Industries Act, touched only the fringe of the problem and did not have the necessary desired impact. The general thinking in the academic circles also supported the viewpoint that simultaneous existence of two institutions, one for financing small and medium-sized units at the State level and another for promoting large-sized industrial concerns all over the country, need not be considered as wasteful duplication. It was felt that such existence of two tier financial structure, supplementing each other's activities would expedite the industrial development of the country.

It was against this background that the Government of India introduced the State Financial Industrial Corporation Act in 1951. This Act which came into force on August 1, 1952 was modelled so closely on the Industrial Financial Corporation Act that very often the accusation was levelled that the State Finance Corporations in the States were in effect the State level Industrial Finance Corporations.

However, for the purpose of record, it must be added that long before the Government of India passed the State Finance Corporations Act and created State Finance Corporations, the then Madras Government had with commendable foresight created the Madras Industrial Investment Corporation<sup>1</sup> even in 1949. This Institution was registered under the Companies' Act and to all purposes, is the State Finance Corporation. However, it is not a State Finance Corporation created under the State Finance Corporation Act of 1951. This Corporation also undertakes both promotional and financing functions. However, some of the restrictive provisions under the State Finance Corporation Act, such as the ceiling limit on financial assistance to a single unit and on the aggregate of the deposits to be accepted and the prohibition on direct subscription to the shares of the companies and the limitation on the period up to which the direct shares which might devolve on the Corporation as a result of its underwriting commitments may be held, etc., are not applicable to the Madras Industrial Investment Corporation. However, for all practical purposes, the Reserve Bank of India has got as large a measure of control over the Tamil Nadu Industrial Investment Corporation as it has over other State Finance Corporations.

In this article, it is proposed to analyse the resources position of the State Finance Corporations as a whole.

The State Finance Corporations can raise funds both from public and private sources. Public sources usually are the Government, Reserve Bank of

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<sup>1</sup> Later called The Tamil Nadu Industrial Investment Corporation.

India, and other All-India financial institutions. Private sources consist of individuals and institutions which provide funds to the Finance Corporations largely as a business proposition. Broadly speaking, the resources received through various channels by the State Finance Corporations may be classified as follows: (a) Share capital; (b) borrowings from the Government; (c) borrowings from the Reserve Bank of India; (d) borrowings through issue of bonds and debentures; (e) long-term deposits; (f) refinance facilities; (g) proceeds of repayments of loans and sale of investments; (h) retained earnings; (i) agency arrangements; and (j) borrowings from the World Bank or other foreign Development Bodies.

### SHARE CAPITAL

The State Finance Corporations Act, 1951 has prescribed a stereotyped pattern of capital structure for these Corporations. The Act lays down that the authorised capital of the Financial Corporation shall be such a sum as may be fixed by the State Government and shall, in no case, be less than Rs. 50 lakhs or exceed Rs 5 crores. Thus, the maximum and the minimum authorised capital has been fixed in the Act itself. Further, the Act specifies that the authorised capital shall be divided into such number of fully paid-up shares, as the State Government may determine and shall be issued by the State Government with the approval of the Central Government to the following parties: (a) the State Government; (b) the Reserve Bank of India; (c) Scheduled Banks and Insurance Companies, Investment Trusts, Co-operative Banks and other Financial Institutions; (d) parties other than those referred to above.

However, the number of shares which may be allotted to the category of investors known as *other parties* in (d) above, shall, in no case, exceed 25 per cent of the total number of shares. The shares allotted to the Scheduled Banks, Insurance Companies and other parties mentioned in categories (c) and (d) above, if they remain unsubscribed, will be subscribed to only by the State Government. The Act also specifies that the shares of the Financial Corporations shall not be transferable except to the State Government, the Reserve Bank of India or any other Financial Institutions recognised in this behalf by the State Government. Only the shares subscribed to by the *other parties* mentioned in category (d) above are freely transferable. Thus, it is abundantly clear that the framers of the Act did not want to take any chance of a private group of investors cornering the shares of the Financial Corporations and thereby gaining control over its policies and programmes. Hence the Act contains so many restrictive clauses which ensure that the control over the finance corporation always vests only with the State Government.

The Act also specifies that the shares will be guaranteed by the State Government both as to the repayment of principal and payment of annual dividend at a minimum rate to be fixed by the State Government with the approval of the Central Government. In practice, it is seen that this minimum guaranteed dividend varies from 3 to 5 per cent. The Madras Industrial Investment Corporation pays only 3 per cent minimum guaranteed dividend while it is 5 per cent in the case of Maharashtra, Haryana, Punjab, Delhi and Jammu and Kashmir. The guaranteed repayment of principal and the payment of a minimum dividend is almost a unique feature of development banking in India. It is learnt that nowhere in the world except Turkey such a principle is followed.

A change in paid-up capital structure arises in the following cases. Normally, the quantum of borrowing that a Finance Corporation can do is a multiple of its paid-up share capital. The Act itself lays down that the total amount of bonds and debentures issued and outstanding and the amounts borrowed by the State Finance Corporations and its contingent liabilities in the form of guarantees or under-writing agreements, etc., shall not exceed ten times the paid-up share capital and the reserve fund of the Corporation. So, when the Corporation is about to reach the ceiling, it has to consider increasing its share capital.

Yet another circumstance that may necessitate variation in the share capital is contemplated under Section 35 (a) of the State Finance Corporations Act. This Section specifies that the Financial Corporation may establish a Special Reserve Fund to which will be transferred such portion of the dividends accruing to the State Government and the Reserve Bank on the shares of the Financial Corporation owned by them. However, the total amount to the credit of the Special Reserve Fund shall not, at any time, exceed 10 per cent of the paid-up share capital of the Financial Corporation. Most of the State Finance Corporations have not been transferring the moneys to the Special Reserve Fund. As such, an occasion has not arisen for increasing the paid-up share capital, so as to facilitate crediting more moneys into the Special Reserve Funds.

One other situation which may necessitate increasing the share-capital is, when the State Finance Corporations may decide to undertake a comparatively risky business on which sufficient returns may not accrue in the initial period, as for example, investing in shares of companies. In such cases, the gestation period when the State Finance Corporations have to wait for their returns on the capital invested is so long, that it is possible to lock up its resources in such ventures only, if the money so invested is borrowed at no or virtually low rates of interest. It is this fact that has been conceded by the recent amendment to the State Finance Corporations Act in 1972. This amendment created a special class of share capital

which would be subscribed to only by the respective State Governments and the Reserve Bank of India. This special capital will not carry a minimum dividend obligation. The object of raising this dividend liability-free special capital is to enable State Finance Corporations to provide soft loans to industrial units in deserving cases and to participate in the share capital of weaker segments of small and medium industries.

Table 1 indicates, at a glance, the capital participation by various groups in the share capital structure of the State Finance Corporations as a whole in the country:

Table 1

(Figures in percentages)

Items (1)	State Finance corporations	
	1963 (2)	1970 (3)
State Government	46.3	51.78
Reserve Bank of India	17.5	15.78
Scheduled Banks	32.5	32.44
Others	3.7	

From this Table it is evident that State Governments hold more than half of the total capital issued by these Corporations. Further, nearly 1/6th of the capital has come from the Reserve Bank of India. The equity participation by scheduled banks and Insurance Companies, etc., in the capital structure of the State Finance Corporations has come down from 36.2 to 32.4 per cent. It only illustrates that in spite of guaranteed minimum dividend and in spite of the shares having been declared as trustee securities and as approved securities for the purposes of Insurance Act, 1938 and the Banking Companies Act, 1949, the Banks and the Insurance Companies do not find it worth while to invest their money in the share-capital of these Corporations.

Table 2 gives a detailed analysis of the pattern of the share-capital structure in the 18 State Finance Corporations.

Table 2 indicates that the objectives set out in the State Finance Corporation Act, viz., to retain the maximum shares in the hands of the State Governments have been achieved in the case of all State Finance Corporations. The contribution of the State Governments varied between 32 per cent in the case of West Bengal to 80 per cent in the case of Himachal Pradesh. It is

**Table 2**  
**Pattern of Share Capital Holdings of State Finance**  
**Corporations as on March 31, 1970**

*(Rupees in lakhs)*

<i>Name of State</i>	<i>State Government</i>	<i>Industrial Development Bank of India</i>	<i>Reserve Bank of India</i>	<i>Others</i>	<i>Total</i>	<i>% of Columns</i>	
						<i>(2) to (6)</i>	<i>(4) to (6)</i>
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Andhra Pradesh	70	—	20	60	150	46.67	13.33
Assam	52	—	20	28	100	52.00	20.00
Bihar	40	—	15	45	100	40.00	15.00
Delhi	25	—	2	23	50	50.00	4.00
Gujarat	39	—	20	41	100	39.00	20.00
Haryana	41	—	6	53	100	41.00	6.00
Himachal Pradesh	28	—	2	5	35	80.00	5.71
Jammu and Kashmir	41	—	10	26	77	53.25	12.99
Kerala	60	—	16	24	100	60.00	16.00
Madhya Pradesh	58	—	15	27	100	58.00	15.00
Maharashtra	58	—	18	74	150	38.67	12.00
Mysore	41	—	15	44	100	41.00	15.00
Orissa	64	—	20	16	100	64.00	20.00
Punjab	30	—	9	36	75	40.00	12.00
Rajasthan	36	—	21	43	100	36.00	21.00
Uttar Pradesh	140	—	15	30	185	75.68	8.11
West Bengal	32	—	20	48	100	32.00	20.00
Tamil Nadu	192	75	—	33	300	64.00	—
Total	1,047	75	244	656	2,022	51.78	12.07

seen that in as many as 9 out of 18 State Finance Corporations more than 50 per cent of the shareholdings is held by the State Government. The Reserve Bank of India and the Industrial Development Bank of India together constitute the second largest shareholder at the All-India level contributing nearly 15.77 per cent of the total share-capital of all the State Finance Corporations. The proportion of the shares held by the Reserve Bank of India varies from 20 per cent of the share capital in the case of West Bengal, Orissa, Gujarat and Assam Finance Corporations to 4 per cent in the case of Delhi Finance Corporation. The third feature to be noticed is that the Commercial Banks, Insurance Companies and other financial institutions including Co-operative Banks have contributed only Rs. 6.56 crores out of the total share-capital of Rs. 20.22 crores, forming 32 per cent.

## BORROWINGS OF THE STATE FINANCE CORPORATIONS

The State Finance Corporations are permitted to borrow money from the State Government, the Reserve Bank of India and from the Industrial Development Bank of India against refinance facilities. Section 7-2 (b) of the State Finance Corporations Act, 1951 authorises the State Finance Corporation to borrow money from the Reserve Bank of India repayable within a period not exceeding 18 months from the date of borrowing against securities of the Central Government or State Government or against bonds and debentures issued by the Financial Corporation and guaranteed by the State Government and maturing within a period not exceeding 18 months from the date on which the money is borrowed. Such borrowings, however, cannot exceed at any time 60 per cent of the paid-up capital of the State Finance Corporations. Perhaps this restriction on the quantum of loans that can be raised from the Reserve Bank against *ad hoc* bonds was imposed, so that the Reserve Bank would have a reasonable margin in the paid-up capital of the borrowing corporation. However, this facility is mainly intended as a short-term arrangement when the State Finance Corporation is making other arrangements for raising money on long-term through issue of bonds. It is, therefore, mainly intended as a *bridge and gap* finance. It enables State Finance Corporations to manage in the short periods to tide over their temporary difficulties and raise larger funds from the market only when the need is for a period beyond 18 months.

The Finance Corporations can also borrow money from the Reserve Bank, repayable on demand or on the expiry of the period not exceeding 90 days from the date on which the money is borrowed, against the security as prescribed by the Reserve Bank of India. These constitute, very short-term accommodation given by the Reserve Bank of India more as cash advances.

The Act also authorises the Finance Corporation to borrow money from the State Government in consultation with the Reserve Bank of India on such terms and conditions as may be agreed upon. The Finance Corporations may also, with the prior approval of the Reserve Bank, borrow money from any financial institutions notified in this behalf by the Central Government on such terms and conditions as may be mutually agreed upon.

The Act, however, lays down that the total amount of bonds and debentures issued and outstanding, the amounts borrowed by the Finance Corporation from the Reserve Bank of India for periods up to 18 months and from the State Governments and from other financial institutions and the contingent liability of the financial corporation in the form of guarantees given by it or under-writing agreements entered into by it, shall not at any time exceed ten times the amount of the paid-up share capital and reserve fund of the Finance Corporation.

While these are the borrowing powers as enunciated in the Act, of late, a new venue of finance which has been made available to the State Finance Corporation is the refinance facilities extended by the Industrial Development Bank of India to the State Finance Corporations. The Industrial Development Bank of India offers refinance facilities in respect of term loans given by the State Finance Corporations to industrial concerns. The minimum amount of loan that is normally refinanced is Rs. 2 lakhs. But for loans to small scale industries guaranteed under the Credit Guarantee Scheme and to small road transport operators, the minimum amount eligible for refinance has been reduced to Rs. 10,000 and to Rs. 20,000 respectively.

Refinance is provided up to 100 per cent in loans up to any amount to small scale units provided they are covered under the Credit Guarantee Scheme. For loans up to Rs. 20 lakhs to small and medium-sized units in specified backward areas and for other loans up to Rs. 5 lakhs also refinance is available. On short term loans, the Industrial Development Bank of India provides refinance up to 80 per cent. The rate of interest charged on refinance loans is also concessional. Normally it is 6 per cent. But in the following circumstances, the rate gets reduced further.

For small scale industries covered under the Credit Guarantee Scheme, the rate of interest charged is only  $4\frac{1}{2}$  per cent, provided the State Finance Corporation does not charge beyond 8 per cent per annum to its loanee. In the case of other loans, the rate of interest is only 5 per cent, provided the State Finance Corporation does not charge the borrower a rate exceeding  $8\frac{1}{4}$  per cent per annum. For loans up to Rs. 20 lakhs granted to small and medium-sized projects in specified backward areas, the rate will be only  $3\frac{1}{2}$  per cent, subject to the State Finance Corporation charging the loanee a rate of interest which does not exceed 6 per cent per annum.

Broadly speaking all the State Finance Corporations have availed to the maximum extent their various borrowing powers. Table 3 presents at a glance the "Borrowings" from various sources by State Finance Corporations as on March 31, 1970.

It is evident from Table 3 that among the various avenues of borrowing, the refinance borrowing from Industrial Development Bank of India is the significant source for the State Finance Corporations. As on March 31, 1970, all the 18 State Finance Corporations put together had availed of Rs. 22.44 crores as Industrial Development Bank of India refinance as against the total borrowings of Rs. 28.47 crores. Thus, refinance borrowing constituted 78.82 per cent of the total borrowings. When compared with the total resources of State Finance Corporations, it is seen that this formed Rs. 22.44 crores out of Rs. 132.71 crores, that is 16.9 per cent. Analysing the individual



Table 3

## Borrowings of State Finance Corporations as on March 31, 1970

(Rupees in lakhs)

SFC	FROM				Total	% of Col.4 to Col. 6
	State Government	Reserve Bank of India	Industrial Development Bank of India	Others		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	—	3	361	—	364	99.18
Assam	—	—	7	—	7	100.00
Bihar	—	31	42	—	73	57.53
Delhi	18	—	46	—	64	71.88
Gujarat	123	60	173	46	402	43.03
Haryana	—	—	218	—	218	100.00
Himachal Pradesh	—	—	—	—	—	—
Jammu & Kashmir	10	—	—	—	10	—
Kerala	—	42	54	—	96	56.25
Madhya Pradesh	—	30	80	—	110	72.73
Maharashtra	—	—	275	—	275	100.00
Mysore	—	40	78	—	118	66.10
Orissa	—	—	27	—	27	100.00
Punjab	45	1	76	—	122	62.30
Rajasthan	—	—	97	—	97	100.00
Uttar Pradesh	43	49	70	—	162	43.21
West Bengal	19	—	198	—	217	91.24
Tamil Nadu	43	—	442	—	485	91.13
Total	301	256	2,244	46	2,847	78.82

State Finance Corporations it is noticed that in the case of Andhra Pradesh, Haryana, Maharashtra, Orissa, Rajasthan, West Bengal and Tamil Nadu, the borrowings from Industrial Development Bank of India constitute more than 90 per cent of the total borrowings. No doubt, in the case of Assam also, the entire borrowings are only in the form of refinance from Industrial Development Bank of India but inasmuch as this amount is only Rs. 7 lakhs out of the total resources of Rs. 487 lakhs raised by the Assam State Finance

Corporation, it may be treated as being negligible. It is also seen that in no case the borrowings from the Industrial Development Bank of India constitute less than 40 per cent of the total borrowings of that State Finance Corporation. One other interesting fact that emerges is that out of the total refinance borrowing of Rs. 22.44 crores, the five State Finance Corporations, viz., Andhra Pradesh, Haryana, Maharashtra, West Bengal and Tamil Nadu themselves account for Rs. 14.99 crores, that is to say, that 66.5 per cent of the refinance given by Industrial Development Bank of India flowed into only five States.

It may be rightly concluded that the most popular type of borrowings with the State Finance Corporations is that from Industrial Development Bank of India. It also in a way indicates how effectively the Industrial Development Bank of India can direct and control the pattern of industrial development in the whole country by regulating the terms and conditions under which it offers refinance to the State Finance Corporations.

The borrowings of State Finance Corporations from the State Government constitute only Rs. 3.01 crores out of the total borrowings of Rs. 28.47 crores, constituting roughly 12 per cent. When compared with the total resources raised by the State Finance Corporations as a whole, this constitutes even a further negligible 2.2 per cent only.

#### BONDS AND DEBENTURES

Another significant resource for the State Finance Corporations is Bonds. The bonds issued by State Finance Corporations are guaranteed by the State Government both regarding repayment of principal and payment of interest. The bonds are generally for a period of 10—15 years and carry an interest of about 6 per cent per annum. The terms of issue are the same as those for the open market loans floated by the State Governments. In recent years, the bonds issued by the State Finance Corporations have always been fully subscribed, though the earlier ones were not so successful. Perhaps, it is because, after nationalisation of the Banks, even before permitting the State Finance Corporations to float a bond, the Reserve Bank of India ensures that these bonds are picked up by specific Banks. No doubt, in the event of a shortfall, the Industrial Development Bank of India is obliged to pick up unabsorbed bonds, but it appears that such bonds which the Industrial Development Bank of India was forced to pick up, do not form any significant proportion.

It is seen that, as on March 31, 1970, the total amount raised by State Finance Corporations through issue of bonds is Rs. 59.97 crores out of Rs. 132.71 crores of total resource raised by the State Finance Corporations,

thus forming only 45.19 per cent of the total resources. Table 4 presents the position regarding the issue of bonds by various State Finance Corporations as on March 31, 1970.

**Table 4**  
**Bonds and the total Resources of the State Finance Corporations**  
**as on March 31, 1970**

(*Rupees in lakhs*)

<i>Name of State Finance Corporation</i>	<i>Amount of Bonds</i>	<i>Total Resources</i>	<i>Percentage</i>
(1)	(2)	(3)	(4)
Andhra Pradesh	305	931	32.76
Assam	282	487	57.91
Bihar	157	378	41.53
Delhi	97	225	43.11
Gujarat	327	972	33.64
Haryana	278	648	42.90
Himachal Pradesh	1	43	2.33
Jammu & Kashmir	55	169	32.54
Kerala	320	591	54.15
Madhya Pradesh	424	699	60.66
Maharashtra	1,174	1,865	62.95
Mysore	416	766	54.31
Orissa	240	419	57.28
Punjab	196	473	41.44
Rajasthan	280	528	53.03
Uttar Pradesh	203	605	33.55
West Bengal	454	848	53.54
Tamil Nadu	788	2,624	30.03
Total	5,997	13,271	45.19

It is seen that Bonds constitute more than 50 per cent of the total resources raised by the State Finance Corporations in the case of eight State Corporations. The proportion of bonds to the total resources varied from 2.33 per cent in the case of Himachal Pradesh to 62.95 per cent in the case of Maharashtra.

#### DEPOSITS

One other important source of funds for State Finance Corporations is through mobilisation of deposits. Acceptance of deposits from individuals

and institutions is a special feature of the State Finance Corporations. Section 8(1) of the State Finance Corporations Act lays down that financial corporations may accept from the State Government or with the prior approval of the State Government and the Reserve Bank of India deposits from a local authority or any person repayable after the expiry of a period of 12 months and above. The total amount of such deposits, however, should not at any time exceed the paid-up share capital of the State Financial Corporation. The deposits, other than those received from the State Government are fully guaranteed by the State Government both as regards repayment of the principal and payment of interest.

In spite of the fact that raising of resources through deposits has been permitted under the statute, not many of the State Financial Corporations have taken to this favourably. It is seen that as on March 31, 1970, 18 State Finance Corporations between themselves have mopped up only 13.36 crores of rupees as deposits out of the total resources of 132.71 crores constituting 10.06 per cent. It is seen that, out of this, Rs. 9.68 crores (72.4 per cent) have been raised by only one State Finance Corporation, namely, Tamil Nadu Industrial Investment Corporation. The other State Corporations which utilised this instrument in a limited way are Assam, Gujarat, Maharashtra and Mysore which have raised Rs. 43,81,130 and 58 lakhs respectively constituting 8.87 per cent, 8.3 per cent, 6.97 per cent and 7.57 per cent respectively of their total resources.

Table 5 indicates at a glance the total amount raised as deposits by the various State Finance Corporations as on March 31, 1970.

Deposit mobilisation as a source of finance had been explored fully only by the Madras Industrial Investment Corporation. Therefore, the deposits policy of the Madras Industrial Investment Corporation merits a very detailed separate analysis. Table 6 indicates the actual amount of fixed deposits outstandings of this corporation as on June 30, of each year.

It is evident from Table 6 that the deposit mobilisation of the Madras Industrial Investment Corporation underwent a great change after 1969. Prior to 1969, it has been a story of steady increasing in-flows. After 1969, the deposits have steadily declined. This phenomenon is mainly the result of certain restrictions imposed by the Reserve Bank of India on Madras Industrial Investment Corporation's fixed deposits policy. When it launched on mobilisation of resources through acceptance of fixed deposits the Madras Industrial Investment Corporation offered as interest a rate which had a slight edge over the rates of interest offered by Commercial Banks. But the Reserve Bank of India did not like this. It felt that to offer such high rates of interest on deposits guaranteed in full by Government was not fair. It

**Table 5**  
**Deposits of State Finance Corporations as on March 31, 1970**

(Rupees in lakhs)

<i>Name of SFC</i>	<i>Amount</i>	<i>Total Resources</i>	<i>Percentage of Col. 2 to Col. 3</i>
(1)	(2)	(3)	(4)
Andhra Pradesh	32	931	3.44
Assam	43	487	8.83
Bihar	—	378	—
Delhi	—	225	—
Gujarat	81	972	8.32
Haryana	1	648	0.15
Himachal Pradesh	—	43	—
Jammu & Kashmir	—	169	—
Kerala	17	591	2.88
Madhya Pradesh	1	699	0.14
Maharashtra	130	1,865	6.97
Mysore	58	766	7.57
Orissa	—	419	—
Punjab	2	473	0.42
Rajasthan	3	528	0.57
Uttar Pradesh	—	605	—
West Bengal	—	848	—
Tamil Nadu	968	2,624	36.89
<b>Total</b>	<b>1,336</b>	<b>13,271</b>	

**Table 6**

(Rupees in lakhs)

<i>Year</i>	<i>Amount of fixed deposits</i>	<i>Total Resources</i>	<i>Proportion of Col. 2 to Col. 3</i>
(1)	(2)	(3)	(4)
1953	1.00	—	—
1963	804.24	—	—
1965	1,013.73	2,127.38	47.65
1966	1,112.04	2,624.80	42.37
1967	1,162.50	3,017.42	38.53
1968	1,184.07	3,168.70	37.37
1969	981.17	3,406.09	28.81
1970	932.65	3,644.57	25.59
1971	855.12	3,975.46	21.51
1972	850.02	4,323.95	19.66
1973	824.00	4,742.67	17.37

felt that higher rates on fixed deposits would adversely affect the deposit mobilisation by commercial banks and may also adversely affect the open market flotations by State Governments. The Reserve Bank of India was adversely commenting upon the deposit mobilisation policy of the Madras Industrial Investment Corporation. Finally, in 1964 matters came to a head. The Madras Industrial Investment Corporation was in a tight corner regarding availability of resources. The gap between available resources and demands on the same, reached on astronomical figure of Rupees 200 lakhs. The Madras Industrial Investment Corporation had already borrowed to the hilt from the State Government and Refinance Corporation of India. It had to approach the Reserve Bank of India for assistance. Then the Reserve Bank of India effected a barter deal and agreed to contribute about Rs. 50 lakhs to the paid-up capital of the Corporation provided the Madras Industrial Investment Corporation agreed to conform to the deposit interest rates suggested by the Reserve Bank of India which was to be the rate offered by the commercial banks on their deposits. The Madras Industrial Investment Corporation had to accept this and it is the effect of this lower rate of interest which is reflected in the gradual decline of deposits of the Madras Industrial Investment Corporation from 1969.

It is a moot point whether the action of the Reserve Bank of India did not kill the very goose that laid the golden egg for the Madras Industrial Investment Corporation. Perhaps the Reserve Bank of India felt that in the interests of traditional conventional standards of banking it was necessary to cry a halt to Madras Industrial Investment Corporation raising money in the market at slightly higher cost and then using it in avenues which took a long term to yield returns, *e.g.*, investment in shares. However, there is no gain-saying the fact that the deposits of Madras Industrial Investment Corporation which constituted Rs. 11.84 crores out of total resources of Rs. 31.69 crores (37.3 per cent) has as on March 31, 1973 steeply come down to Rs 8.24 crores out of Rs. 47.43 crores of resources, *i.e.*, 17.3 per cent, thanks to the Reserve Bank of India's restrictions.

#### OTHER RESOURCES

##### *Repayments*

The other sources of finance available for the State Finance Corporation are rather insignificant. The resources available through repayment of earlier loans advanced or through sale of securities and investments are all available only after the State Finance Corporations have reached a certain stage of maturity. Even then they will be only minor sources of funds. Naturally the resources available through repayments of earlier obligations will be the direct result of and a function of the defaults position in the

Corporation. In other words, if the collection work is slack or if the collection is poor because of general depression in the economy, then repayment as a source is not worth mentioning.

### *Agency Arrangements*

Agency arrangements refers to the system under which some of the State Governments channelise their funds earmarked for development of small-scale industries through the State Finance Corporations. Strictly speaking this is not a source as in this arrangement the State Finance Corporations can at best be regarded as acting as the conduits through which the State Governments conveniently channelise their budgeted earmarked funds for small-scale industries development under the State Aid to Industries Act/ Rules. At present this procedure is current only in five State Finance Corporations, viz., Assam, Andhra Pradesh, Maharashtra, Orissa and Uttar Pradesh. Loans outstanding under the Agency arrangements amounted to Rs. 10.2 crores as on March 31, 1973.

### *Reserves*

Yet another internal resource available to the State Finance Corporations is its own reserves. These Corporations have resources which are both statutory, and non-statutory. Most of the State Finance Corporations have a general reserve fund, a reserve fund for bad and doubtful debts, a special reserve fund under Section 35-A of State Finance Corporations Act, an investment reserve fund and a special reserve fund under Section 36(1) (vii) of Income Tax Act, 1961.

It is noticed that, as on March 1971, all the 18 State Finance Corporations had created only Rs. 6.10 crores of reserves as against their paid-up capital of Rs. 21.11 crores, i.e., 8 per cent. In 1963, the corresponding figures were Rs. 0.39 crores of reserves as against Rs. 14.00 crores of paid-up capital, i.e., 2.8 per cent. No doubt this reflects a steady growth but still it cannot be said that the reserves built up are comfortable. This is because the operating profits of most of the State Finance Corporations are so negligible that they are not even able to meet their dividend liabilities. So the question of transfers to reserves does not arise. In spite of the fact that exemption was given from income tax to profits not exceeding 25 per cent transferred to special reserves and though the State Finance Corporations Act was amended in 1962 permitting the State Governments and the Reserve Bank of India to forego the dividend on their shares in State Finance Corporations and transfer it to the special reserve fund, yet the growth in reserves has not been significant.



## FOREIGN LINE OF CREDIT

One other important source of fund to the State Finance Corporations is the IDA line of credit which has been opened recently. The World Bank Study Team came to India during November 1971 to study the status of the small scale industrial sector in the country. Based on their recommendations and further negotiations between Government of India and IDA, the World Bank made available to Government of India credit in various currencies equal to 25 million U.S. dollars (Rs. 18 crores). This is to be used only by small and medium scale industries.

Projects eligible for assistance under the State Finance Corporation Act, 1951 requiring financial assistance not exceeding 30 lakhs of rupees are eligible for assistance under this loan assistance programme. The minimum limit for assistance under this is Rs.10,000 in the case of small scale industrial units and Rs. 2 lakhs in the case of units other than small scale industries. Assistance under this programme can be had for setting up new projects as well as for expansion, diversification and modernisation of the existing units where some portion of the loan is required for financing import of capital goods or technical know-how.

The repayment period for these loans is also generally spread between 3 and 10 years and in exceptional cases, it is extended up to 15 years. The loan given under the IDA credit by a State Finance Corporation is eligible for refinance by Industrial Development Bank of India in the following manner:

- (i) Loans to small scale industrial units covered under the Credit Guarantee Scheme and to units in backward areas (100 per cent).
- (ii) Loans up to Rs. 5 lakhs to units other than those indicated at (i) above (100 per cent).
- (iii) Loans above Rs. 5 lakhs to units other than those indicated in (i) above (80 per cent).
- (iv) Loans up to Rs. 2 lakhs granted to technician entrepreneurs under the Special Guarantee Scheme which render them guarantee covered under the Credit Guarantee Scheme (100 per cent).

The rate of interest charged by the Industrial Development Bank of India for these loans is  $6\frac{1}{2}$  per cent, if the State Finance Corporation's rate of lending is 9 per cent to the industrial concerns in respect of loans to small-scale industrial units covered under the Credit Guarantee Scheme and to projects in backward areas and to projects started by technician entrepreneurs. For units other than those mentioned above, the rate of interest would be

6 $\frac{3}{4}$  per cent, if the State Finance Corporation's lending rate is 9 $\frac{1}{2}$  per cent to the industrial concerns. Thus there is a interest spread of 2 $\frac{1}{2}$  to 2 $\frac{3}{4}$  per cent between the rate at which the State Finance Corporation gets the money from Industrial Development Bank of India and the rate at which it lends. A commitment charge of 1 per cent per annum is payable by the borrowing industrial concern to the State Finance Corporation on the undisbursed portion of the State Finance Corporation loan under this line of credit. A similar 1 per cent commitment charge is payable by the State Finance Corporation to the Industrial Development Bank of India on the undrawn sanctioned IDA refinance loans. While repaying the loan borrowed under this scheme in cases where partial refinance has been granted by the Industrial Development Bank of India (80 per cent refinance), the State Finance Corporation is permitted to retain the earlier maturities to the extent of its own participation and pass on only the later maturities to the Industrial Development Bank of India. This makes it possible for the State Finance Corporation to recover its investment at an earlier date than the Industrial Development Bank of India and thereby be able to plough back as resources, the recoveries of loan amounts.

In order to make these loans under this IDA line of credit popular with the small-scale industrialists and the State Finance Corporations, the normal sanction procedures have been simplified. Thus it has been made as attractive as possible for the State Finance Corporations to absorb in full the foreign exchange resources made available to them for the first time through the Industrial Development Bank of India.

It has not been possible to collect up-to-date information regarding the amount of foreign credit absorbed as on date by the State Finance Corporations under this IDA line of credit. However, it is observed that in the case of the Tamil Nadu Industrial Investment Corporation alone 46 applications have been received for a foreign exchange loan of Rs. 2.13 crores and as on April 30, 1974, nineteen sanctions have been issued for a sum of Rs. 69 lakhs under this line of credit. It is expected that for the country as a whole the full amount of Rs. 18 crores worth of foreign exchange will be absorbed by the small and medium industries before 1976.

#### OVERALL RESOURCES POSITION

Having broadly covered the various sources of funds of the State Finance Corporations in general it is proposed now to analyse the relative significance of various types of resources (See Table 7).

It is evident from Table 7 that in the case of all the State Finance Corporations, bonds form the major single resource. In the case of many State Finance Corporations, it forms more than 50 per cent of the total

**Table 7**  
**Resources Position of State Finance Corporations as on March 31, 1970**

(Figures in percentages)

(1)	Proportion of Paid-up Capital to total Resources	Proportion of Reserves to Total Resources	Proportion of Bonds to Resources	Proportion of Borrow- ings to Total Resources	Proportion of Deposits to Total Resources	Proportion of other Liabilities to Total Resources	Total Resources
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Andhra Pradesh	16.11	4.08	32.76	39.10	3.44	4.51	100
Assam	20.53	6.57	57.91	1.85	8.83	4.72	100
Bihar	26.46	4.50	41.53	19.31	—	8.20	100
Delhi	22.22	2.67	43.11	28.44	—	3.11	100
Gujarat	10.29	2.67	33.64	41.36	8.33	3.70	100
Haryana	15.43	4.48	42.90	33.64	0.15	3.40	100
Himachal Pradesh	81.40	11.63	2.33	—	—	4.65	100
Jammu & Kashmir	45.56	7.10	32.54	5.92	—	8.88	100
Kerala	16.92	3.71	54.15	16.24	2.88	6.09	100
Madhya Pradesh	14.31	4.01	60.66	15.74	0.14	5.29	100
Maharashtra	8.04	2.90	62.95	14.75	6.97	4.40	100
Mysore	13.05	4.31	54.31	15.40	7.57	5.35	100
Orissa	23.87	5.25	57.28	6.44	—	7.16	100
Punjab	15.86	5.07	41.44	25.79	0.42	11.42	100
Rajasthan	18.94	3.79	53.03	18.37	0.57	5.30	100
Uttar Pradesh	30.58	4.13	33.55	26.78	—	4.96	100
West Bengal	11.79	4.72	53.54	25.59	—	4.36	100
Tamil Nadu	11.43	2.10	30.03	18.48	36.89	1.07	100
Total	15.24	3.68	45.19	21.45	10.07	4.38	100

resources. The proportion that it bears to total resources varies from 2.33 per cent in the case of Himachal Pradesh to 62.95 per cent in the case of Maharashtra.

The next major source is *Borrowings*, constituting 21.45 per cent of the total resources. In this case also the variation is wide, ranging from 5.92 per cent in Jammu & Kashmir to 41.36 per cent in the case of Gujarat. In the case of 7 State Finance Corporations, *Borrowings* form more than 25 per cent of their resources.

Paid-up capital forms only 15.24 per cent of the total resources of the State Finance Corporations as a whole. However, in the case of Maharashtra, it forms only 8.04 per cent of its resources, while in the case of Himachal Pradesh, it forms 81.40 per cent.

It is noticed that paid-up capital plus reserves of the 18 State Finance Corporations as on March 31, 1970 amounted to Rs 25.10 crores as against other resources (all which can be classified broadly as borrowed funds, viz., Bonds, Deposits, Borrowings from Banks, Reserve Bank of India, Industrial Development Bank of India and other liabilities) to the tune of Rs. 107.61 crores. So the debt equity ratio was roughly 4.3 : 1 only.

#### USES OF FUNDS BY THE STATE FINANCE CORPORATIONS

To turn now to a brief analysis of the uses to which these funds have been put by these State Finance Corporations. Table 8 indicates, at a glance, the uses of funds as on March 1973.

**Table 8**

(Rupees in lakhs)

(Figures within brackets, percentages)

	1961	1973
(1)	(2)	(3)
Investment in Government Securities	460 (15.44)	174 (0.76)
Investment in Shares	119 (3.99)	1,045 (4.56)
Loans and Advances	1,712 (57.45)	189,52 (82.66)
Debentures	14 (0.47)	61 (0.27)
Other Assets	675 (22.65)	2,697 (11.76)
Total Resources	2,980 (100)	22,929 (100)

SOURCE : Reserve Bank of India Report on Currency and Finance, Statement 46.

It is evident from Table 8 that the most popular use to which the State Finance Corporations have put their funds is loans and advances to industrial concerns which constitutes 82.66 per cent of the total investments as on March 31, 1973. It is seen that the investment in shares constitutes only a

negligible 4.56 per cent even in 1973. It, therefore, appears that the Development Banks have not taken very much to investing in the shares of the new concerns. This is partly because of the various restrictions imposed by the Reserve Bank of India. The Reserve Bank of India lays down that a State Finance Corporation cannot invest more than Rs. 25 lakhs as shares in any company. The Act also prohibits direct subscription of shares by a State Finance Corporation. It only permits the State Finance Corporation to take on such shares which have become the liability of the State Finance Corporation through its underwriting operations. Even these shares are not permitted to be retained for more than a period of seven years without the specific permission of the Reserve Bank of India. The only exception to these restrictions and regulations has been the Madras Industrial Investment Corporation.

Table 9 gives detailed analysis of the use of funds by the various individual State Finance Corporations. It is evident from Table 9 that loans and advances constitute 78.78 per cent of the total assets of the various State Finance Corporations. The lowest proportion was in the case of the Tamil Nadu Industrial Investment Corporation which spent only 55.91 per cent of its total resources towards loans and advances. The highest is in the case of Haryana with 92.90 per cent.

It is also noticed that investment in Government and other trustee securities constitute only 2.5 per cent of the total resources available with the State Finance Corporations. The highest investment in Government and other trustee securities by any individual State Finance Corporation was 5.90 per cent of the total resources again in the case of Tamil Nadu Industrial Investment Corporation only. The lowest was 0.31 per cent in the case of Haryana.

#### SHARE INVESTMENT ACTIVITY OF STATE FINANCE CORPORATIONS

The interesting aspect, however, is with reference to the quantum of money invested in shares and debentures of companies. As stated earlier, the State Finance Corporations Act imposes various restrictions and virtually prevents the State Finance Corporation from investing directly in the shares of companies. The only exception was the Tamil Nadu Industrial Investment Corporation. It is observed that as on March 31, 1970 when all the State Finance Corporations put together invested only Rs.10.03 crores in shares and debentures out of that amount, the Tamil Nadu Industrial Investment Corporation alone accounted for Rs. 7.74 crores, i.e., 77.1 per cent. It is also noticed that only 11 out of 18 State Finance Corporations have invested in shares and debentures. Yet, among these 11 State Finance Corporations, there is no single State Finance Corporation, which comes anywhere near the

Table 9

## Use of Funds by the State Finance Corporations as on March 31, 1970

(Rupees in lakhs)

(Figures in bracket percentages)

Name of State	Loans and Advances	Government and other Trustee Securities	Shares and Debentures	Other Assets	Total
(1)	(2)	(3)	(4)	(5)	(6)
Andhra Pradesh	776 (83.35)	31 (3.33)	46 (4.94)	78 (8.38)	931 (100)
Assam	429 (88.09)	—	—	58 (11.91)	487 (100)
Bihar	336 (88.89)	5 (1.32)	—	37 (9.71)	378 (100)
Delhi	203 (90.22)	—	—	22 (8.78)	225 (100)
Gujarat	803 (82.61)	14 (1.44)	74 (7.61)	87 (8.33)	972 (100)
Haryana	602 (92.90)	2 (0.31)	—	44 (6.79)	648 (100)
Himachal Pradesh	28 (65.12)	1 (2.33)	—	14 (32.55)	43 (100)
Jammu & Kashmir	152 (89.94)	—	—	17 (10.06)	169 (100)
Kerala	489 (82.74)	26 (4.40)	18 (3.05)	58 (9.81)	591 (100)
Madhya Pradesh	606 (86.70)	—	17 (2.43)	76 (10.87)	699 (100)
Maharashtra	1,665 (89.28)	44 (2.36)	3 (0.16)	153 (8.20)	1,865 (100)
Mysore	630 (82.25)	—	10 (1.30)	126 (16.45)	766 (100)
Orissa	289 (68.87)	4 (0.95)	18 (4.30)	108 (25.78)	419 (100)
Punjab	359 (75.90)	4 (0.84)	7 (1.48)	103 (21.78)	473 (100)
Rajasthan	457 (86.55)	23 (4.36)	5 (0.95)	43 (8.14)	528 (100)
Tamil Nadu	1,467 (55.91)	155 (5.90)	747 (28.47)	255 (9.72)	2,624 (100)
Uttar Pradesh	487 (80.50)	25 (4.13)	—	93 (15.37)	605 (100)
West Bengal	677 (79.83)	1 (0.12)	58 (6.84)	112 (13.21)	848 (100)
Totals	10,455	335	1,003	1,478	13,271

quantum of money invested by the Tamil Nadu Industrial Investment Corporation in shares and debentures. The second and third ranks with reference to the quantum of money invested as shares go to Gujarat with Rs. 74 lakhs and West Bengal with Rs. 58 lakhs only.

It may be of interest to record here the growth in share activities by the Tamil Nadu Industrial Investment Corporation over the past decade. (See Table 10)

Table 10

(Rupees in lakhs)

<i>Year (As on 30th June each year)</i>	<i>Amount Invested in Shares and Debentures</i>	<i>Total Resources</i>
(1)	(2)	(3)
1960-61	151	754
1961-62	216	—
1962-63	321	—
1963-64	466	—
1964-65	552	2,127
1965-66	673	2,625
1966-67	727	3,017
1967-68	752	3,169
1968-69	763	3,406
1969-70	755	3,645
1970-71	745	3,975
1971-72	777	4,324
1972-73	781	4,748

As stated earlier, the Tamil Nadu Industrial Investment Corporation is a company registered under the Companies Act in 1949, *i.e.*, even before the State Finance Corporations Act, 1951 was passed. The Articles and Memorandum of Association of the Madras Industrial Investment Corporation prescribed no restrictions on its powers to invest directly or through under-writing operations, in shares of companies. It is because of this that it was able to develop into a premier industrial promoter. The Tamil Nadu Industrial Investment Corporation started its investment in share activity in 1959. In the early stages, the Tamil Nadu Industrial Investment Corporation had no constraints regarding the monetary limits with reference to the quantum of money that it could invest as shares. This practice was partly a result of a historical accident. This Corporation is a company registered under the



Companies Act. Section 372 of the Companies Act, 1956 permits investment by a company in the shares of another body corporate only up to 10 per cent of the subscribed capital of such other body corporate, provided that the aggregate investments so made in all other corporate bodies shall not exceed 30 per cent of the subscribed capital of the investing company. Investments above these percentages have to be sanctioned specifically by a resolution of the investing company at its general body meeting and it is subject to approval by the Central Government. The Tamil Nadu Industrial Investment Corporation which was registered as a company would have been constrained by this provision in the Companies Act. But in the early days, the promoters of this Corporation argued that though registered as a company, it was a 'Banking Company' as it was receiving fixed deposits from the public and making loans and advances to companies and that, therefore, the restricting provision of Companies Act will not apply to it. The Banking Companies Act also had the restraining provision in Section 19(2) which prescribed a ceiling for share investments in individual cases by a banking company. However, the Tamil Nadu Industrial Investment Corporation argued that this restraining provision of the Banking Companies Act also did not apply to it, as Government of India had declared it to be exempt from the provisions of the Banking Companies Act. Thus it was a curious situation when the management of the Tamil Nadu Industrial Investment Corporation placed itself beyond the purview of both these Acts with reference to company investment provisions. This logic enabled it to invest in companies up to even Rs 100 to 150 lakhs in individual cases. The only restraint observed by it was the viability of the project and the ability of the Corporation to raise that much of money. This liberal interpretation by the early Directors of the Corporation of their financial powers was the main reason for Tamil Nadu Industrial Investment Corporation making such a big impact in the investment market. It was seen that in just four cases, namely, a Paper Project, an Aluminium Project, a Cement Manufacturing Unit and a Shipping Unit, the Tamil Nadu Industrial Investment Corporation contributed Rs. 360 lakhs as its share of equity capital and was able to consequentially ensure that projects worth Rs. 40 crores materialised in the State. This was indeed a commendable effort of a development bank.

However, after 1965 the position has changed. The powers of the Tamil Nadu Industrial Investment Corporation have been considerably muzzled by the Reserve Bank of India which laid restrictions upon the quantum of contributions that could be made by the Corporation in each individual case. We find therefore that, subsequent to 1965, there has been a downward trend in the underwriting and share investment activities of the Tamil Nadu Industrial Investment Corporation. Whether this muzzling by the Reserve Bank of India is desirable or not is a moot question and deserves separate detailed analysis. Suffice it for the purpose of this article to record that by

virtue of a historical accident, the Tamil Nadu Industrial Investment Corporation has been able to register greater participation in share investment activities than other State Finance Corporations.

#### GENERAL OBSERVATIONS

As stated earlier in this article, State Finance Corporations are allowed to transfer up to 25 per cent of their profits to a special reserve fund and such transferred amounts are exempt from income tax. The point is whether this limit of 25 per cent may not be increased further. Moreover, this income tax concession is given only to such State Finance Corporations whose share capital is below Rs. 3 crores. May be this restriction could be removed altogether as it is desirable to enthuse the State Finance Corporations to increase their share capital base. All these measures are suggested, so that the proportion of reserves to share capital may go up and cover the risks that the State Finance Corporations have to face through defaults of their loanees. As on March 31, 1970, the State Finance Corporations had as reserves only a sum of Rs. 4.88 crores as against a paid-up capital of Rs. 20.22 crores, i.e., barely 24.1 per cent. Especially, if the paid-up capital base is to be increased, there should be concerted efforts to push up also the reserves of the State Finance Corporations.

#### HIGHER RATES OF INTEREST ON FIXED DEPOSITS

As stated earlier in this article, fixed deposits as a source, have not been exploited in full by any State Finance Corporation other than Tamil Nadu. Even in the case of Tamil Nadu, this source has been underutilised because the Reserve Bank of India prescribed a rate of interest for the deposits which is uniform with the rates offered by commercial banks on their deposits. The logic of maintaining parity with commercial banks is not clear. The State Finance Corporations may be allowed to have a rate which is more in keeping with the market rate of interest. This suggestion need not be considered as very revolutionary or radical as even now most of the State Industrial Development Corporations do receive deposits and they offer a rate of interest which is different from the rates offered by commercial banks. The Reserve Bank of India therefore need not perhaps disapprove development banks offering a rate of interest which has a slight edge over the commercial banks' rates of interest. The Reserve Bank of India need not view the State Finance Corporations as competitors with commercial banks who through their wide network of branches and more attractive packages of services are in a better position to influence the depositors than the State Finance Corporations.

In conclusion, it must be said that there is a great deal to be done in the industrial field and accelerated development can be initiated adopting innovative methods in raising resources,

The State Finance Corporations can achieve these objectives provided they are allowed the freedom to experiment and evolve solutions to suit their own special conditions and not be constrained by stereo-typed regulations and centralised controls. Perhaps in industrial finance as elsewhere the old adage holds good: "Nothing dared—nothing achieved".

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## ROLE AND ORGANIZATION OF MONOPOLIES COMMISSION IN INDIA

*J. L. Nain*

**M**ONOPOLIES and unfair trade practices are as old as the hills. They have their foundation in human greed, and have been noticed from the earliest times in trade and commerce. They existed in ancient Greece and Rome. Even a few centuries before Christ regulations had been enacted in India, prohibiting making of cartels to jack up the prices of commodities and prescribing severe penalties for breaches of such regulations. Such practices cannot vanish unless businessmen accept the Gandhian ideal of capitalists becoming the trustees of their wealth for the welfare of the poor. The rich man must take what he requires for his own needs and apply the surplus for social welfare. There should be bread for all before there are cakes for some.

Lord Acton said that power corrupts and absolute power corrupts absolutely. This is true also of economic power. Realising this, democracies in different parts of the world developed a growing consciousness of the need for keeping the economic power within control. Various laws have been passed during the last hundred years in many parts of the world for controlling monopolies and unfair trade practices. Sherman Act was passed in USA in 1890. Canada anticipated the anti-trust legislation of its neighbour and passed an Act in 1889 for control of unfair trade practices. In UK, monopolies have existed for a long time as a result of royal grants in consideration of money. While the British Parliament was trying to prevent monopolies by legislation, the courts of common law kept pace by declaring unlawful, restrictive practices on various grounds beginning with 1894 when contracts in restraint of trade were held to be unlawful if they exceeded reasonable limits.<sup>1</sup> Lord Macnaughten observed in that case that the public have an interest in every person carrying on his trade freely; so has the individual. All interference with individual liberty in action in trading and all restraints in themselves if there is nothing more are contrary to public policy and therefore void. That is the general rule. But there are exceptions; restraints of trade and interference with individual liberty of action may be justified by special circumstances of a particular case. Following closely on the heels of this case trade combinations of undesirable type were struck down by the British Courts holding that they constituted conspiracies and were actionable

<sup>1</sup> Nordenfelt's Case, 1894, A.C. 535.

under the law of torts. The concept of conspiracy as a species of tort was developed in a famous trilogy of cases.<sup>2</sup> The law laid down in these three cases was restated in *Sorrel v. Smith*, 1925, A.C. 700. This crystallised in UK the modern law relating to trade combinations as actionable tort. From 1948 there has been statutory legislation in United Kingdom prohibiting monopolies as well as restricted trade practices. Today, there are similar laws in Commonwealth as well as other countries of the world.

In our own country, political and economic thinkers have become increasingly aware in recent years of the need for an examination of the problem of concentration of economic power and monopolies. Several academic studies and investigations have been made about the extent of concentration of economic power. An investigation of this type was undertaken by the Committee on Distribution of Income and Levels of Living under the chairmanship of Prof. Mahalanobis. The makers of the Indian Constitution were also well aware of the potential danger of excessive concentration. It was to impress on the future governments of the country the need for fighting against this danger that Articles 38 and 39 were enshrined in the Constitution of India in 1950. Article 39 provides that the State shall, in particular, direct its policy towards securing that the ownership and control of the material resources of the community are so distributed as best to subserve the common good and that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. In 1964, the Government of India appointed the Monopolies Inquiry Commission under the chairmanship of Mr. R. C. Dutt. This Commission submitted its report in 1965.

The report of the Commission stated, "In the eyes of the common man in India concentrated economic power is wholly evil. The great disparity of wealth and income between the small section of the people possessing such power and the vast majority that constitute the remainder is by itself sufficient to explain this attitude. The dislike for concentration of economic power is turned into hatred by the abysmal poverty in which millions of our countrymen live and die. When so many have not sufficient food or clothing or shelter, is it not criminal, they ask, that a few should live in lordly luxury and wasteful extravagance? This antipathy for big business is aggravated by belief not infrequently held that the big businessmen are responsible for all their misfortunes. We do not think that such belief is wholly justified. Big business has done much for the country's economic betterment and as a consequence, for the alleviation of the poor man's misery. Still, it is not possible to ignore the reality that the widespread hatred for big business, whether based on good reasons or not is a serious consequence of

<sup>2</sup> *Mogul Steamship Co. v. Macgregor*, 1892, A.C. 25; *Allen v. Flood*, 1898, A.C. 1 and *Quinn v. Leatham*, 1901, A.C. 495.

concentration of economic power which must be taken into account in deciding what remedial measures are called for."

The report goes on to observe that what makes the common man suspicious is that "big business stretches its tentacles into the working of the very democratic machinery. In private conversation and public discussions, in the press and on the platform and even in Parliament, allegations are often made about government policy being shaped by the undue influence of big business. Considerable financial assistance that some of the leading industrialists in the country have given to the ruling party has furnished ammunition for the attack that big business is hand in glove with the party in power. The fact that such assistance has been liberally given has been admitted by the Government in a statement made in Parliament."

Representatives of industry complained to the Commission that they were compelled to make such contributions. The Commission further observes: "We cannot also ignore the unfortunate reality that some big businessmen do not hesitate to use their 'deep pocket' to try to corrupt public officials, in the attempt to continue and increase their industrial domain. If, as is often alleged, the general level of honesty in the country has gone down, one at least of the contributory causes has been this conduct of some businessmen. People cannot be blamed if they believe that it is the hope of favours to be received that induces such payments and after the election is over businessmen try their best to see that the investment made by them brings satisfactory return."

It must be said in favour of big business that concentration of economic power has also helped the economic betterment of the country. Big business has been so often responsible for pushing forward development of further industries which has been to the advantage of the country. Big business has also been able to supply over the years considerable amount of managerial skill of high quality, so that production has been high, profits have been good and failures comparatively few in number. It is, therefore, reasonable to expect that concentrated economic power may be relied upon to make some important contribution to industrial development in the crucial years to come. But big business by its very bigness sometimes succeeds in keeping out competitors. It deters the entry of smaller units even in industries without any special scope for economies of scale; price wars and threats have been used by some dominant entrepreneurs in India with a view to maintain their domination. The elimination of small men in industries, insofar as it dries up the source of managerial and entrepreneurial ability is, therefore, bad for industry as a whole.

Balancing all these factors it became necessary to bring in the concepts of 'public interest' and 'common detriment' in controlling concentration

of economic power. The Monopolies Inquiry Commission, therefore, took the view that it was not necessary to strike at concentration of economic power as such but it should be done only when it becomes a menace to the best production or to fair distribution. To accomplish this a constant watch must be kept by a body independent of Government in addition to what is being done by the Government and Parliament to see that big business does not misuse its power. Monopolistic conditions in any industrial sphere are to be discouraged if this can be done without injury to the interests of the general public. Monopolistic and restrictive trade practices must be curbed except when they conduce to the common good.

It is in the above background that the Monopolies and Restrictive Trade Practices Act, 1969 (MRTP Act) was passed. The object of the Act, as stated in its preamble, is "to provide that the operation of the economic system does not result in the concentration of economic power to the common detriment, for the control of monopolies, for the prohibition of monopolistic and restrictive trade practices and for matters connected therewith or incidental thereto". The Monopolies and Restrictive Trade Practices Commission (MRTP Commission)—the independent statutory body envisaged by the Act—was constituted in 1970.

Under the provisions of the Act, the Central Government is to set up a Commission to be known as the Monopolies and Restrictive Trade Practices Commission, consisting of a Chairman and not less than two and not more than eight members to be appointed by the Central Government. The Commission has fairly wide powers and duties. The Commission is to inquire into any restrictive trade practices on the complaint of a consumers' association having a membership of not less than 25 persons or from 25 or more individual consumers, upon reference made to it by the Central or State Government, upon an application made to it by the Registrar of Restrictive Trade Agreements or *suo moto* upon its own knowledge or information.

The Commission may also inquire into monopolistic trade practices upon a reference made to it by the Central Government or *suo moto* upon its own knowledge or information. In connection with the monopolistic trade practices the Commission is an Advisory Body and reports to the Government. If the report is in pursuance of a reference made by the Central Government, the Central Government can under Section 31 of the Act make an appropriate order remedying the evil. There is, however, no provision in the Act empowering the Central Government to make appropriate orders on a report made by the Commission as a result of a *suo moto* inquiry. This is a lacuna in the Act. At present all that the Central Government can do is to refer back the matter to the Commission for an inquiry and report. It is only then that the Central Government can make appropriate orders remedying the evil. However, if the Commission is inquiring into a restrictive trade



practice and it finds that a monopolistic undertaking is indulging in restrictive trade practices, it may after passing orders in respect of restrictive trade practices submit the case along with its findings to the Central Government with regard to any monopolistic trade practice and in this case the Central Government is empowered to make an order remedying the evil under Section 31 of the Act.

In the field of restrictive trade practices, the Commission is autonomous. If it comes to the conclusion that any particular practice is prejudicial to the public interest, it has the power to direct that the practice shall not be repeated or shall be discontinued or that the agreement relating to it shall be void in respect of such restrictive trade practice or shall stand modified in such manner as may be specified in the order. The orders of the Commission in this respect are subject only to an appeal to the Supreme Court. The appeal is of a limited nature akin to a second appeal under the Code of Civil Procedure.

The provisions of the Act for prevention and control of concentration of economic power are contained in Chapter III. In respect of undertakings of the total value of rupees twenty crores (to be calculated along with the value of interconnected undertakings) or in case of a dominant undertaking where the value of assets is not less than one crore, expansion or setting up a new undertaking has been prohibited without a sanction of the Central Government. Mergers, amalgamations and takeovers of undertakings by such large or dominant undertakings have also been checked and no such merger, amalgamation or takeover can be effected without the sanction of the Central Government. It is only in cases in which the Central Government considers a further inquiry to be necessary that it is required to refer the matter to the Commission for inquiry and report. In the matter of concentration of economic power also the functions of the Commission are purely advisory and the final orders are made by the Central Government after taking into consideration the report of the Commission. Provision has also been made in Chapter III for division of large or dominant undertakings. In the matter of division the Central Government has to refer the matter to the Commission and to pass final orders for division only if the Commission so recommends. The Act also provides for prohibition of measures for maintaining re-sale prices. The Commission is empowered to exempt particular classes of goods from the prohibition of re-sale price maintenance. In this field also the Commission is an autonomous body and its orders are final and not even subject to an appeal to the Supreme Court.

The Act further provides for powers to obtain information. It also provides for penalties for noncompliance with the provision of the Act.

The Chairman of the Commission has to be a person who is or has been or is qualified to be a judge of the Supreme Court or of a High Court. The

Members of the Commission have to be persons of ability, integrity and standing who have adequate knowledge or experience of or have shown capacity in dealing with problems relating to economics, law, commerce, accountancy, industry, public affairs or administration. The Commission takes its decisions by majority opinion. The Members of the Commission are not removable from office except upon the report of the Supreme Court made on a reference made to it by the Central Government and after an inquiry and finding that the Member has so abused his position as to render his continuance in the office prejudicial to the public interest. The Central Government is empowered in consultation with the Commission to appoint a Director of Investigation for making investigations for the purposes of the Act. The Act makes provision for registration of certain specified agreements relating to restrictive trade practices and the Central Government is empowered to appoint an Officer to be known as the Registrar of Restrictive Trade Agreements for maintaining a Register of such agreements and for performing such other functions and duties as may be assigned to him by Regulations made by the Commission.

The Act empowers the Commission to make Regulations for the efficient performance of its functions under the Act, more particularly to prescribe the duties and functions of the Registrar, the payment of costs of proceedings before the Commission by the parties concerned and the general procedure and conduct of the business of the Commission.

Soon after the Commission was constituted, it made two sets of Regulations, namely, Restrictive Trade Practices (Enquiry) Regulations, 1970, and Monopolies and Restrictive Trade Practices Commission Regulations, 1971. The Commission functioned under these Regulations up to the middle of 1974. As a result of experience gained in the first three years of its working the Commission discovered several defects in the Regulations. It also found that the procedure prescribed for various types of inquiries was unnecessarily prolix and time-consuming. It also found that the Regulations were silent on several aspects of the functioning of the Commission and did not make provision for the exercise of several of its statutory functions. There was inadequate provision for the carriage of *suo moto* inquiries and the duties of the Director of Investigation and the Registrar of Restrictive Trade Agreements were not prescribed in detail. In July, 1974, the Commission repealed the then existing Regulations and promulgated the Monopolies and Restrictive Trade Practices Commission Regulations, 1974. By these Regulations the Commission streamlined its working, reduced the number of pleadings before the Commission and the time for delivering the same, made express provision for the procedure of inquiries on the lines of the Code of Civil Procedure with which the country is already familiar, and made certain provisions of the Code of Civil Procedure applicable where the Regulations were silent.

Apart from the Offices of the Director of Investigation and the Registrar of Restrictive Trade Agreements, the Commission has a Research Wing manned by qualified and experienced economists which carries on studies in connection with the existence of monopolistic and restrictive trade practices in several trades. The Commission has also an Administrative Wing which deals with the administrative matters of the Commission. The Commission has on its staff about 25 Officers and about 100 other persons assisting them.

The question may now be asked as to what has been the impact of the Monopolies and Restrictive Trade Practices Act and the Commission on the industrial growth of India, checking the concentration of economic power, the control and prohibition of monopolistic and restrictive trade practices.

After Independence, gigantic efforts have been made towards economic development through a series of Five Year Plans. We could have done better. But we have not done too badly. But, at the same time, a developing economy has generally to live with shortages and the Indian economy cannot be an exception to this. There is also the problem of shortages and rise in prices all over the world. In spite of the present difficulties, shortfalls in achieving plan targets, inter-sectoral imbalances between public and private sectors and other constraints, India has witnessed remarkable industrial progress during the last 25 years. Not only industrial output has more than doubled but so also significant qualitative and structural changes have taken place. The wide ranging import substitution and larger exports of non-traditional goods are indicative of substantial diversification. The enlarged public sector has played an important role in this process. Perhaps there is no other developing country which has witnessed such a phenomenal growth of the small-scale sector as our country. India, according to the Pearson Commission, "ranks among the top fifteen countries in the world in industrial output".

There are mainly three types of concentration of economic power, each of which imperils economy in a different way. One is derived from control of sales or purchases in a particular industry. The second is derived from vertical integration on a scale sufficient to provide a compelling advantage over a non-integrated enterprise. The third type of power is that which springs from giant size. Bigness may destroy competitors, eliminate competitive initiative and lead to the adoption of restrictive trade practices even when the big enterprise is a conglomerate concern without monopolistic power in a particular market. The concentration of economic power may be product-wise concentration or country-wise concentration.

It is perhaps too late in the day for the industry to question the need of the regulatory power created by the MRTTP Act. No political party in the

country is opposed to what the Constitution has ordained in regard to distribution of economic power and wealth and reducing disparities of incomes. Indeed many parties want to go to the extreme in this regard. Every party claims to speak for the common man. Even the extreme rightist parties which stand for free enterprise want a fair deal for the weaker sections of the society and hope to control big monopolies through competition which does not appear possible in the present situation. The leftist extreme wants the Commission to act as a sort of bludgeon against the monopoly houses whereas the monopoly houses are accusing the Commission of delaying or frustrating many useful expansion schemes or new industrial projects. They want the Commission to function as a quick clearing house of whatever cases are referred to it. Neither of the two extremist views is conscious of the fact that the Commission by itself is not a political organ but is judicial in nature and it has to decide all cases according to law, rules and procedures laid down under these laws.

The provisions for preventing concentration of economic power are contained in Chapter III of the Act. This Chapter is unique inasmuch as it is an original contribution of our country to the anti-monopoly legislation of the world. In USA, and UK, there is no restriction on bigness as such. There is a curb on bigness that misbehaves. Our contribution to monopoly legislation is a direct result of our social philosophy enshrined in Articles 38 and 39 of our Constitution.

The functions of the Commission relating to control of monopolistic and restrictive trade practices have no adverse effect on industrial growth. No one likes monopolies and unfair trade practices. An undertaking which misuses its monopolistic or dominant position by manipulating prices, lessening competition, obstructing flow of resources or limiting technical know-how is most reprehensible. Any action taken against such defaulting company should be welcomed by all. In any case, these inquiries hardly come in the way of India's industrial growth and development or flow of goods into the market, and are concerned with fair distribution of industrial production. Their effect on industrial progress is to eliminate restrictions on production and competition and to encourage and stimulate industrial production. Restrictions on production and distribution constitute the *modus operandi* and become a prelude to unfair trade practices. The idea is to eliminate competition by limiting production and creating artificial shortages. The Commission in its efforts to encourage competition and to discourage and eliminate restrictions on production and competition actually contributes to and stimulates the progress of industrial production in the country.

The Commission, or rather the Act, is being criticised on several counts, namely, that the industrial approvals are delayed, and the Commission asks

for far too detailed information some of which is considered to be irrelevant for the purpose of dealing with the cases under the provisions of the Act. The delay involved in Chapter III cases is to some extent on account of the procedure that has been evolved under the Act. We must remember that there are two authorities functioning under Chapter III, namely, the Government itself and the Commission. All applications for industrial licences falling under the Act are to be made to the Government. The Government has been disposing of about 90 per cent of the applications by itself without reference to the Commission. It is only in cases where the Government considers that a closer scrutiny or detailed inquiry is necessary that the matter is referred to the Commission. If a case is disposed of without reference to the Commission, the Advisory Committee is expected to clear it within 90 days from the receipt of the application. The Commission is also given 90 days to submit a report. On receipt of the Commission's report, the Act allows the Government 60 days to examine it and to pass orders. Insofar as the Commission's submission of the report is concerned, whatever might have been the position prior to July, 1973, all arrears of applications have now been wiped out and there is speedy disposal of matters. Whenever there is delay, it is due to the long time taken by the applicant companies in replying to the Commission's questionnaire. Section 28 of the Act prescribes the matters to be taken into account by the Commission in dealing with the applications for licences. The Commission must come to rational conclusions keeping these provisions in mind. It takes 3-4 months to make a report if the Commission's questionnaire is answered within the liberal time allotted for it. The time taken in making the Commission's report, however, does not mean a brake on industrial growth. The view that industrial production has fallen after the coming into force of the Act is incorrect. Statistically there has been no fall in the industrial production. Industrial production may have been affected by shortages of power and shortages and high prices of industrial raw materials and labour troubles but not on account of the operation of the Act. After the coming into force of the Act, there has been shortage of power; there has been an oil crisis the world over. These may have affected industrial production. These events and the coming into force of the MRTP Act are a pure statistical coincidence. After coming into force of the Act, about 464 applications have been made to the Government under Chapter III. Of these, 55 applications were withdrawn by the applicants. Out of the 409 effective cases, 116 cases are still pending. Only one-tenth of the cases cleared by the Government have been rejected by it. Again, of the 409 effective cases, 46 cases or 11 per cent were referred for inquiry to the Commission, of which only 7 cases are pending with it. The number of rejections by the Commission itself is about 10 per cent. These figures will show that the number of cases referred to the Commission in relation to the total number of applications received by the Government is so small that the Commission's working can hardly come in the way of the country's industrial

progress. Considering the small number of applications rejected by the Government and the Commission, it cannot be said that the Act has come in the way of industrial progress.

In spite of the fact that collection of information is constantly being systematised and rationalised and all questionnaires are properly scrutinised before being despatched, the framing of replies involves a lot of workload for the concerned undertakings. But this is inevitable as it affords the Commission an opportunity to make an in-depth inquiry and take into consideration all aspects involved in the efficient or inefficient working of an industrial unit or a particular industry.

The large size of an undertaking or a business may or may not be bad. Its further expansion may or may not be in the public interest. Much depends on the circumstances of each individual case. The Commission recognises that the 'core' industrial sector has been left open to the large houses. It may also be pointed out that Chapter III of the MRTP Act does not apply to an undertaking which wants to expand in the existing line of production. The Commission does not and will not come in the way of expansion of larger houses if it considers that the expansion is in the ultimate analysis in the public interest. The Commission while recommending approval of the expansion applied for may recommend increased exports, modified scheme of finance, dilution of tightly held family holding or dilution of foreign shareholding so as to enable the public to share the fruits harvested by the company. The Commission in each case pays due attention to the economies of scale.

In examining Chapter III applications, the Commission usually follows the following guidelines. In the first instance permission to expand or set up a new undertaking is given to non-monopoly houses using entirely Indian capital and technology. Between two applicants, one setting up an independent unit and the other one setting up a captive unit, preference is given to the former. If a non-monopoly house with Indian capital and technology is not in a position to manufacture the goods, the Commission recommends a monopoly house which uses entirely Indian capital and technology. The next preference is given to Indian entrepreneurs having a majority shareholding in the enterprise and with minority foreign shareholding provided import of technology is considered essential. In such cases also first preference is to be given to non-monopoly enterprises. This is followed by enterprises which have a majority foreign shareholding but are non-monopoly enterprises. The last in order of preference come monopoly enterprises with majority of share-capital held by foreigners. Here too preference is given to an applicant who proposes to set up an independent unit and the one which involves the least drain on the foreign exchange of the country. Such an applicant, however,



should be willing to dilute its share-capital by offering substantial portion of the capital required for the proposed expansion to Indian nationals in accordance with the Government guidelines formulated from time to time. The above criteria should at best be treated as broad criteria. Each case has to be studied objectively after due consideration and weightage to other criteria laid down in Section 28 of the Act, and to the possibility of the enterprise contributing to research and development and development of managerial skills, training of technologists in the country, development of backward areas and employment of Indians. In each case, generally speaking, there are points for or against the proposal. The Commission has to strike a balance and to give its opinion considering what will be in the best interest of the national economy.

The Act confers powers on the Central Government to enforce division of undertakings if it is of the opinion that the working of an undertaking is prejudicial to public interest or has led or is leading or is likely to lead to adoption of monopolistic or restrictive trade practices. Under Section 27 of the Act, the Government has powers to refer such matters to the Commission for an inquiry and report. The Commission may after such hearing as it thinks fit report to the Central Government its opinion and shall where it is of opinion that a division ought to be made specify the manner of the division and compensation, if any, payable for such division.

The Act provides for compulsory registration of certain agreements relating to restrictive trade practices. The Commission is authorised to inquire into any restrictive trade practice whether arising from a registered agreement or otherwise and the Commission has the power to direct that such a practice shall be discontinued or shall not be repeated or that the agreement relating thereto shall be void or the Commission may permit the party to take such steps within specified time to ensure that the trade practice is no longer prejudicial to the public interest. Section 38 provides for certain statutory presumptions as to public interest.

The Act makes void any term or condition of a contract for the sale of goods insofar as it stipulates for maintaining re-sale price for sale of goods in India. The Act also prohibits the withholding of supply on ground that supplier has been selling or is likely to sell goods at less than stipulated re-sale price. Section 41 empowers the Commission to exempt particular class of goods from the operation of the provision relating to resale price maintenance.

For sometime after the Act came into force, the Commission did not pay much attention to prevention of restrictive trade practices. The people of the country were unaware of the statutory provisions and hardly any



complaints were received from the people. The Central Government did not refer any cases for inquiry into monopolistic trade practices or desirability of division of undertakings. The Commission did not start any *suo moto* inquiries. The Commission lived in an ivory tower. During the last one year, people have been informed about the role of the Commission in these areas. The Commission has started *suo moto* inquiries. The Central Government has referred to the Commission three cases pertaining to monopolistic trade practices and one case pertaining to division of undertakings. In all these cases referred by the Government the parties have filed writ petitions in several High Courts and obtained stay orders. Even in some cases of monopolistic and restrictive trade practices started by the Commission the parties have filed writ petitions and obtained stay orders.

It is too early, therefore, to judge the impact of the Commission in the realm of unfair trade practices. The country is going through acute shortages which gives scope for unfair trade practices to unscrupulous businessmen. The task, therefore, becomes stupendous. But the very fact of the existence of the Commission and its keeping a watchful eye has to some extent a deterrent effect on such businessmen.

The Act requires a number of improvements in order to make it more effective. It will perhaps be better to constitute the Commission as a Superior Court of Record to enable it to punish those who commit breaches of its orders restraining and prohibiting unfair trade practices. In the Bill as drafted by the Monopolies Inquiry Commission, the Commission was proposed to be made autonomous in respect of monopolistic trade practices. In the Act this role has been changed to an advisory role. In most cases monopolistic and restrictive trade practices are so interconnected that it is difficult to separate them. It will perhaps be better to amend the Act and make the Commission autonomous in respect of monopolistic trade practices. In view of the economic situation in the country and chronic shortages it would perhaps be better to make restrictive and monopolistic trade practices offences punishable with fine or imprisonment or both so as to make the punishment a deterrent and also to make provision for recovery of damages to the extent of gains made by persons indulging in such practices. The inquiries in case of unfair trade practices take considerable time because judicial procedure has to be followed and rules of natural justice complied with. The Commission has at present no express power to issue injunctions restraining the continuation of unfair trade practices even where a *prima facie* case exists. Even subordinate Courts in the country have powers to issue injunctions. The Commission is presided over by a person who is or has been a Judge of the Supreme Court or a High Court. There is no reason why the Commission should not be clothed with authority to issue such injunctions. The unscrupulous businessman is interested in delaying the disposal of proceedings so that he

can carry on his unsocial activities for his private gain. He is, therefore, likely to indulge in dilatory tactics before the Commission itself and also by filing writ petitions before High Courts and getting stay of proceedings before the Commission even if ultimately the writ petition fails. An interim injunction in a proper case will prevent the continuation of the unfair trade practice. Such changes will make the Commission more effective.

It is yet too early to say whether the MRTTP legislation has achieved some tangible social objectives in the last four years. It takes time for such institutions to adjust themselves to the needs of the country they wish to serve and the Central Government and the Legislature must from time to time clothe the Commission with sufficient authority to make itself more effective. Monopolies legislation is one of the many legislative and non-legislative measures which the Government has taken in order to move the country towards an equitable society in conformity with the Directive Principles of the State Policy enshrined in our Constitution. Similar bodies have served a useful purpose in other parts of the world and there is no reason why the Commission should not be able to play its part in helping the people of the country to get social justice.

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## GOVERNMENT REGULATION OF PRIVATE INDUSTRY—AN INTERNATIONAL COMPARISON

*Nitish Sengupta*

FOR nearly quarter of a century now India has experimented with the regulation of private industrial development through a multitude of administrative controls operated by different central agencies under different laws and policies with an insistence of scrutiny of almost every single project of significance. Apart from the direct control exercised by industrial licensing, there are also the controls through capital goods import clearance, foreign investment or collaboration clearance, control over capital issues and, last but not least, the approvals under the Monopolies and Restrictive Trade Practices Act. The declared objectives are to curb the evils of private enterprise and to make it conform to the governmentally laid down priorities and the overall goals of social and economic justice. The present paper is addressed not to the rationale behind the industrial investment control policy, nor to the ideological controversies that spring up on it from time to time, but to some basic administrative and procedural aspects which have assumed a critical importance and which have serious repercussions on the working of the policy. It will seek to draw some lessons from the experience of some other developing countries and suggest from a purely managerial angle, some approaches, organisational and procedural, by which the functioning of the regulatory mechanism can be made more effective in operation rather than impressive in appearance, more concerned with the substance rather than the shadow of control. It will be our general conclusion that the system of direct case-by-case scrutiny and regulation of specific business activities has very high economic and administrative costs; that the structure of government we have and in particular the secretariat system is unsuited to the task of discharging so many 'line' functions it has appropriated in recent years and in particular in deciding on large number of individual applications involving projects as speedily as the situation often demands; and that, wherever possible it may be better to replace this mechanism of direct case-by-case regulation by an alternative system of legislation-type indirect control which would prohibit certain specific types of activities, encourage certain other types and reduce to a minimum the area where firms are required to submit individual applications for individual cases to be decided by an individual authority according to its discretion.

## SOME OTHER MODELS OF GOVERNMENT CONTROL OVER INDUSTRY

Governmental regulation and control of private industrial development has been a common phenomenon in nearly all the developing countries and some developed countries. While countries like India, Pakistan and Taiwan have opted for the system of direct and discretionary control through licensing of almost every case, other countries seem to have adopted alternative types of control depending on a country's political and economic systems and its social ethos. We can by way of illustration identify three such types. First, Japan and some other south-east Asian countries, e.g., South Korea, seem to follow a form of control which is as complete and pervasive as anything one can think of, but a control which is administered not through any discretionary case-by-case scrutiny, but through a paternal Mandarin type of administrative guidance and supervision. Japanese government officials believe that business is incapable of making satisfactory decisions by itself and that it is essential for Government to provide guidance on virtually every aspect of operations.<sup>1</sup> Industry accepts this leadership provided by the administrative bureaucracy for which there is, however, no legal or statutory basis, but a much stronger base which is provided by a deep sense of national patriotism, a desire which is shared equally by government and business to bring Japan's economy abreast at the level of European economy measured in per capita income terms.<sup>2</sup> "Out of discussions between government and the private enterprise, mutually determined national targets are worked out. Private enterprise pledges to carry these out. Government, on its side, pledges special favours such as subsidies and taxation measures. Mutual consent and bilateral methods obviate the need for legal compulsion."<sup>3</sup> The result is the emergence of a "concerted economy" or a "consent economy" or more picturesquely, the "Japan incorporated". South Korea which has shown very remarkable industrial progress in recent years also provides an illustration of the same type of centrally controlled economy through administrative guidance. Secondly, we have the example of France where also there is very close government control over private sector industry, exercised through the method of 'indicative planning'. "The French approach to planning has aimed from the start at finding a new path between centralised control and individual market decisions. It is based on group consultation and persuasion. Within the government the Planning Commission acts as an advisory agency somewhat on the lines of the Council of Economic Advisors in the United States. Unlike the coercive and highly directive planning of socialist countries, French planning operates by stimulating different segments of the economy toward

<sup>1</sup> Hadley, Eleanor M., "Anti-Trust in Japan", Princeton University Press, 1970, p. 390.

<sup>2</sup> See U.S. Department of Commerce, "Japan—The Government-Business Relationship."

<sup>3</sup> Ministry of International Trade and Industry, "Japan: A Discussion of Cooperative Industrial Organisation". Quoted in Hadley, *op cit.*, p. 398.

accepted short range, sectoral goals. Thus it is commonly called 'indicative', i.e., it spells out goals and provides help in reaching them, as opposed to those forms of planning which prescribe required action. Characteristics of French planning have been its flexibility, its dependence on financial incentives, its emphasis on increasing the quantity of production and its relevance to selected needs and goals."<sup>4</sup> A third type of close government control over industry is provided by countries like Singapore, Malaysia, Mexico, Brazil and a host of African countries. These countries seek to regulate private sector industry, through a system of incentives and active promotional measures. Singapore which among these countries provides by far the best success story abandoned formal overall planning in 1964-65 and embarked on an aggressive industrialisation policy based on:

- (i) A whole set of fiscal and financial incentives to attract entrepreneurs, specially foreign ones;
- (ii) Creating the social and economic infrastructure suitable for setting up industrial projects; and
- (iii) Simplifying the entire administrative set-up and procedure concerned with industry in such a manner that the investors do not have to go in a round-about manner into long tedious negotiations with a number of government agencies and can get definite government decision in a matter of days, rather than months or years<sup>5</sup>.

Malaysia and Indonesia also seem to have streamlined their administrative systems considerably and also created specific agencies for the purpose of stimulating and coordinating private sector industrial investment through incentives and promotional measures, e.g., Federal Industrial Development Authority (FIDA) in Malaysia, Foreign Investment Board in Indonesia. Also significant are the "investment codes" adopted by a number of African countries indicating the fiscal and promotional benefits and preferential treatment to be offered to eligible foreign and domestic companies which invest in specified categories of industry.<sup>6</sup>

#### PROLIFERATION OF AGENCIES AND OVERLAPPING OF FUNCTIONS

India in contrast provides the classic model of a system of direct discretionary regulation by government authorities over industry that envisages applications to be submitted in respect of a very large proportion of major

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<sup>4</sup> Venturini V.G., *Monopolies and Restrictive Trade Practices in France*, p. 1. Also see Sheahan, *Promotion and Control of Industry in Post War France*, Cambridge Mass., 1963.

<sup>5</sup> Asian Development Bank, "South East Asia's Economy in 1970s", p. 196,

<sup>6</sup> See I.M.F., "Survey of African Economics", 5 volumes.

business activities and approvals to be given to each—at times separate approvals by different authorities under different laws—before corporate management can undertake them. By far the most common and yet the most valid point of criticism of our industrial licensing system is that applications are required to pass through a very cumbersome, tortuous and time-consuming process involving a larger number of Ministries and other agencies, and also a great deal of inter-agencies consultation. In the initial years, the Ministry of Commerce and Industry was the primary agency involved. But with the emergence of a number of technical Ministries, e.g., Petroleum & Chemicals, Steel & Mines, Electronics, Commerce, and the assumption of considerable industrialisation functions by each of them, there has inevitably been a certain proliferation of authorities. There are several other Ministries which get directly involved with the licensing process, e.g., the Planning Commission, the Departments of Company Affairs, Economic Affairs, Banking and Science and Technology. Again, there are a number of agencies like the Directorate General of Technical Development, the Development Commissioner, Small Scale Industries and the Council of Scientific and Industrial Research whose views have to be obtained and given considerable weight. Inevitably policy decisions get diffused, and more often than not these agencies do not pull together in one direction. Another source of overlapping and heterogeneity is the presence of a number of inter-ministerial committees. Leaving out the numerous screening committees, and other *ad hoc* groups, there are at least four main committees, viz., Licensing Committee, the Advisory Committee for cases under the Monopolies and Restrictive Trade Practices Act, the Capital Goods Committee and the Foreign Investment Board. These Committees have more or less the same composition, and, although in theory each is expected to perform only a specific role, in practice their roles overlap, specially whenever major projects which invariably attract most of these angles are involved. There is no reason why they should not be merged into a single body which can then look at a project as a single indivisible project in all its aspects such as techno-economic considerations, the angle of concentration of economic power of dominance, the requirement of capital goods import, or the issue of foreign investment or technical collaboration. Such a single inter-Ministerial Committee should be a businesslike body meeting as often as necessary and consisting of members who should devote most of their time, if not their whole time, to this work. In fact such a process was initiated in 1973 when the Licensing Committee and the MRTP Advisory Committee were merged in to the Licensing-cum-MRTP Advisory Committee. But the process was not carried on to its logical conclusion by the abolition of the other Committees. Instead, a new body, the Project Approval Board was created, paradoxically with the same composition as that of the existing Committees for considering projects simultaneously from all these four or at least more than one of these angles where the entrepreneur was able to apply for simultaneous clearances. A common secretariat (SIA) was also

provided for all these committees, *i.e.*, PAB, Licensing Committee, Licensing-cum-MRTP. Committee, the Capital Goods Committee, the Foreign Investment Board. A common secretariat, however, is no substitute for a common unified agency to administer and coordinate all forms of controls over industry. Otherwise the present proliferation of agencies will only continue to cause ruinous delay and procrastination in the area of investment decision-making. What is worse is that it becomes very difficult to fix responsibility for these delays. Again, this system breeds one of the worst bureaucratic vices, *viz.*, departmentalism. There is no awareness of an overriding common purpose, no central direction, and in place of them we have the all-too-familiar picture of various narrow departmental approaches, each department zealously guarding its own sphere and trying to masquerade as the national point of view what is essentially its own point of view. As a result cases may pass 'to' and 'fro' amongst various Ministries for years without any sign of a final decision. It is, therefore, important to examine whether so many agencies should necessarily be involved in the industrial licensing system, or whether in their place there should not be a unified agency combining the necessary expertise and the authority to decide on its own speedily. In that event the entrepreneurs will also be relieved of much of the present uncertainty and confusion. They will know only one agency and will not have to move various separate agencies for separate sectional approvals to what is essentially a single project. Instances in point are Ghana's Capital Investment Board<sup>7</sup>, Malaysia's Federal Industrial Development Authority (FIDA), Singapore's Economic Development Board, Indonesia's Foreign Investment Board and Philippines' Board of Investment (BOI)<sup>8</sup>. In India also the procedural changes of 1973 were a big step in the right direction. The process should be carried to its logical conclusion by creating in place of the bewildering multiplicity of agencies, one single agency for dealing with industrial investment applications in all their aspects.

Some serious thought should be given to whether the practice of issuing a letter of intent to be followed by an industrial licence has really served the objective which the Swaminathan Committee, 1964-66 had in mind. The original idea was to enable entrepreneurs to go ahead with preliminary work of the project even before things like foreign collaboration or capital goods could be settled. But, in actual practice, the procuring of a letter of intent has become only the first among the many hurdles, and in some respects, the easiest one, emanating from Government to be cleared by an investment project. It is a common observed experience that even after a letter of intent is issued, in a large number of cases, the entrepreneur cannot start any work unless very protracted negotiations with various institutions are completed

<sup>7</sup> Botsio, Mark (ed.) "*Ghana: Business Guide 1972-73*", p. 81.

<sup>8</sup> For Singapore, Malaysia, Thailand and Indonesia, see Asian Development Bank, "*South East Asia's Economy in the 70s*", Longman.



for the capital and import requirements, the foreign exchange requirements or the terms of foreign collaboration are settled. In such a situation, the letter of intent does not have much practical significance except improving the statistical picture and the hunt for various licences and approvals unavoidably continues and many of the letters of intent do not fructify even after years. Thus, while the licensing authorities, in a state of false complacency, measure their achievements in terms of the number of letters of intent issued, actual industrial development in physical terms lags far behind.

#### INADEQUACY OF THE ADMINISTRATIVE SYSTEM

There remains the general question whether the organisational forms, or administrative procedure that we have inherited from the colonial administration is the right kind of instrument for dealing with the newer tasks and newer problems, *e.g.*, industrial licensing which we are called upon to face, specially when their urgency brooks no delay. In the last two decades, the needs of centralised planning and coordination have led to an immense degree of concentration of powers of control in the Central Government and the assumption by the Central Ministries of a host of 'line' functions in relation to industry. On the other hand, our secretariat system, with its leisurely style of work and remoteness from reality, has some obvious weaknesses when called upon to deal with and decide upon such day-to-day functions in relation to industry. As an expert has summed up:

"The system is founded on belief in the infallibility of judgement if taken at sufficiently high levels no matter how far removed from the scene of action or the situational facts.

The system may well have been successful in achieving its main objective of guaranteeing a sober and conservative decision-making process for orthodox governmental functions. (It) . . . simply does not meet the requirements of modern government where quick and decisive action is called for day by day frequently on highly technical subjects. The slow and methodical routines . . . of papers passed up from below in a long and tenuous chain of command represents the antithesis of the dynamic administration called for by a viable nation.<sup>9</sup>"

In our system not only is Central Government's authority horizontally diffused among a number of agencies, but also vertically it is structured along a pre-determined hierarchy involving a fairly large number of levels. This, combined with the other known bureaucratic vices, *e.g.*, general absence of delegation, over-centralisation of decision-making insistence on regular channels,

<sup>9</sup> Gladieu Bernard, "Reorientation of Pakistan Government for National Development" (mimeographed) Karachi, p. 68.

adherence to a lot of formalities and undue regard to precedents, inevitably results in procrastination and delay. We land up with an exceedingly round-about, though declaredly fool-proof, method of reaching decisions. This might have been all right for dealing with a smaller number of cases in an earlier age, but is hopelessly inadequate when called upon to deal with a vastly larger number and more complex type of cases, most of them requiring a high-speed decision. Faced with this situation it only generates enormous paper-work with a great deal of semantics which often serve to obscure the facts and the considerations behind a decision. A kind of new language, a 'governmentalise' has developed in the last two decades not easily understood by anyone except those who are parts of this machinery. This problem, further intensified by the bureaucrats' notorious love of secrecy and the use of a language which is alien to the masses, creates a vast area of haze and miasma between the Government personnel on the one hand and the entrepreneurial classes or potential entrepreneurs on the other. The enormous number of people for ever hanging in and around the Bhavans at New Delhi bear an obvious testimony to this.

#### ECONOMIC AND SOCIAL COSTS

All efforts to encourage new entrepreneurs or to widen the entrepreneurial base of our economy are bound to come to grief under the present system which gives natural advantage to large industrial houses and foreign companies who alone have the resources to wait indefinitely for a Government decision, to journey to New Delhi from time to time to explain cases or to maintain offices there, or to engage professionals like lawyers and accountants to fill in complicated forms and handle these cases with the help of useful 'contacts' in Government circles. New-comers are simply scared away.<sup>10</sup> Thus the system continues to protect inefficient entrepreneurs at the expense of efficiency, productivity, and the growth of entrepreneurship. Delayed government decisions and the resultant uncertainty also result in cost escalation, discouragement of capital formation and investment, and serious production gaps. Further, the enormity of the tasks involved in the preparation of applications and seeing them through various agencies and various stages of approval leads to the diversion of a very large proportion of the time and activities of managers and industrialists from their proper tasks in the productive system to essentially non-productive functions. Similarly, the extra administrative work generated by the system requires an enormous number of government officials. All these add up to very high economic and social costs borne ultimately by the nation.

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<sup>10</sup> See reports of the Monopolies Inquiry Commission (1964); the Administrative Reforms Commission Study-Team on Economic Administration (1968), and the Industrial Licensing Policy Inquiry Committee (1969).

As the Report of the Study-Team of the Administrative Reforms Commission (1968) on Economic Administration stresses, the present licensing procedure seems to absolve the entrepreneur from making his own investment decision. It also emphasises that "thanks to the policy of licensing, Indian industrialists today seldom try to assess the demand for any given product, and conduct no market survey, but depend on licensing targets as the guide for taking investment decisions". The Commission, therefore, recommended that the Government's tariff, fiscal, credit and taxation policies should be utilised to bring about the desired objectives and the detailed administrative case-by-case regulation, as in the present system, should be given up.

The system has also come in for severe criticism on the ground that the Licensing Committee has not been given, or itself evolved "a set of explicit economic criteria of choice, that announced before hand, would compel applicants to provide all the relevant information in a form that would enable it to make intelligent judgements even without detailed expert knowledge."<sup>11</sup> In fact there seems to be a regrettable gap in the information system relating to the licensing of industrial projects. It is not understood why instead of the *ad hoc* studies made by the DGTD when an application is received we cannot have a built-in data system which can readily make available information such as demand and supply projection, the availability of the required capital goods in the country, or whether the type of technology required has to be imported. The Licensing Committee's remoteness from economic reality is said to be illustrated by their estimating manufacturing capacity on the basis of licences granted rather than projects implemented. The same authors proceed to conclude that the implementation of planning by central investment decision is a very difficult task to accomplish efficiently, that the system is defective because it fails to bring together the planners' superior information on overall requirements and capacity with the plant managers' and businessmen's superior knowledge of local conditions, technology and human resources" and that "the two sets of people are isolated and placed into opposite camps."<sup>12</sup> Similarly, in the planning process itself there is no machinery which directly brings together into meaningful result the civil servants and professional planners on the one hand and the businessmen and the managers on the other. Just as the Licensing Committee usually lacks the expertise to pick and choose the particular firm or firms best placed and most competent to build capacity in a given industry, so the Planning Commission lacks much of the relevant information for deciding what industries, in what proportion and in what order of priority, to expand or establish, because it cannot or does not draw on the detailed first-hand knowledge, which the people connected with each industry have of markets, prices,

<sup>11</sup> Little, Scitovsky and Scott, "Industry and Trade in Some Developing Countries—A Comparative Study", O.E.C.D., p. 206.

<sup>12</sup> *ibid.*, p. 219-20.

resource availabilities, local conditions and profitabilities.<sup>13</sup> Unfortunately such machineries as are prescribed by law as the development councils, have not been properly utilised in recent years. A healthy recent trend, however, is the setting up of a large number of Task Forces for specific industries by the Planning Commission or the concerned Ministries with representation from the industry and government. The Brazilian experiment of Executive Groups, or the Mexican experiment of Advisory Committees for import licensing are good examples in this context.<sup>14</sup>

#### CONCLUSION

In the context of our none-too-happy performance in the field of industrial growth in the last decade and the fact that during this same period several other countries following alternative modes of control have succeeded in pulling themselves up by the boot-strap, and joining the ranks of prosperous nations, it has become urgently necessary to work-study our impressive industrial controls system, and to re-examine some of the premises on which, it is based. Often in the recent past specific administrative controls over the functioning of corporate management have been introduced without any clear conception of the objectives behind them. Whenever it is felt that an economic problem needs to be dealt with, our thought immediately veers round to measures involving direct and discretionary control rather than those involving indirect action and requiring less administrative resources. Thus control tends to become not a means to an end, but an end in itself. Before any administrative regulation is introduced, it is necessary to ask the following questions. What are the Government's objectives? Is there no existing law or regulatory mechanism by which the same objectives can as well be achieved without the necessity of introducing a new control? To take one illustration, the objectives sought to be achieved by the control measures imposed by Chapter III of MRTP Act could have been achieved by the existing powers of the Central Government under the Industries (Development & Regulation) Act and the Companies Act with only slight changes in the existing laws. Again, is the existing administrative organisation adequate for operating the proposed control? Otherwise there is an inherent danger that what is conceived of by legislators and policy-makers as a measure for overall control and coordination in national economy's interest is reduced to the mechanical application of some rules of thumb and adhocism by petty bureaucrats, unmindful, of the overall objects and considerations.

Another fundamental issue, after a certain type of regulation has been

<sup>13</sup> Little, Scitovsky and Scott, *op. cit.*

<sup>14</sup> Bergsman, J. Brazil "Industrialisation and Trade Policies", O.E.C.D., King, T. "Mexico—Industrialisation and Trade Policies since 1940", O.E.C.D.

considered necessary, is whether such regulation should necessarily mean a separate application in each case leading to an individual decision by an individual authority acting on his discretion, or whether the control should not be operated as a legislation-type non-discretionary influence where all entrepreneurs or firms are expected to observe certain rules and regulations without the necessity of having to approach Government authorities for separate approval in every case. Applied to the area of industrial licensing, this approach may take the following form. For every Plan period Government should after careful study announce: (1) a list of industries where only public sector units should be allowed further entry, (2) a list of industries where no licence application will be entertained, (3) a list of industries open only to small-scale units, and (4) a list of industries where large house companies and foreign companies will be encouraged to enter, or expand existing capacities. All investments up to a specified value, say Rs. 5 crores in any field, other than these four lists by entrepreneurs other than large-house or foreign companies should be delicensed, and, in respect of these, there should be no obligation to approach the Government for approval except for statistical purposes and except when foreign exchange, capital goods imports or scarce raw materials are required. This will substantially reduce the area of licensing while retaining Government's overall control over the pattern of industrial growth. There is the oft-quoted argument about avoiding misdirection of investment. Once the broad signposts for future investment patterns are indicated, industrial licensing loses much justification as a means for preventing misdirection. In any case, the public financial institutions and nationalised banks which virtually control all the sources of industrial finance today would seem to be a better and more realistic agency for preventing misdirection of investment outside the key areas than the scrutiny of applications at the level of the Central Government. Applying this indirect control approach to the field of foreign collaboration, we may have an alternative system with a complete ban on collaboration in some fields, its encouragement in some other fields, a declaration of certain standard terms of collaboration agreements and some suitable changes in the corporate taxes. Such an approach will considerably reduce the immense administrative work created by licence applications or collaboration proposals, reduce delays and shift the burden of policy implementation on indirect measures. The adoption of a similar approach by Brazil for foreign exchange allocation is said to have led to considerable progress. In 1963, after a public outcry over administrative mis-management and corruption Brazil abandoned import licensing and substituted it by the system of auctioning foreign exchange.<sup>15</sup> In our system the Licensing Committee meeting about twice a week to deal with hundreds of cases involving hundreds of items and firms cannot find more than 3 to 4 minutes

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<sup>15</sup> Little, Scitovsky and Scott, *op. cit.*, p. 221.

to consider the merit of each case. An alternative method of indirect control as suggested will considerably reduce this heavy pressure and enable it to concentrate on cases of significance where expertise or special judgement are necessary without getting bogged in hundreds of petty applications. It has been noted that one danger of Government's identification with day-to-day matters in industry is that government policy becomes the sole factor of importance in the economy, and complete dependence on the Government and the uncertainties of government policy can have a paralysing effect on private enterprise and initiative. Argentina's relatively slow rate of growth in recent years has been attributed to this, while in Mexico, where there is considerable volume of government control, but no control over day-to-day matters, private investment is said not to have been inhibited.<sup>16</sup> The lessons for India seem obvious. A combination of the Japanese administrative guidance and the French indicative planning over industry as a whole with a reduced area of direct and discretionary type of control covering only the key areas and a corresponding increase in the area of indirect control would seem to meet the needs of the present time. This will also have to be accompanied by the elimination of all duplication of work, the streamlining of the administrative process and the creation of an unified agency for dealing with industry as a whole.

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<sup>16</sup> Little, Scitovsky and Scott, *op. cit.*, p. 207.

## INDUSTRIAL BOURGEOISIE AND THE INDIAN POLITICAL SYSTEM

C. P. Bhambhri

THE growth of the economic power of the industrial *bourgeoisie* of India is the result of basic political processes operating in the country. An analysis of factors responsible for the concentration of economic power in the hands of the 'big industrial *bourgeoisie*' immediately highlights the nature of linkages that exist between the corporate sector and the variety of politico-administrative decision-making agencies operating at various levels in India. The business community in India has established various contact points with multiple political and administrative decision-making agencies established for the regulation and direction of economic activity in the country. This inter-actional model of 'business' and 'government' suggests that the causes for the growth of economic power have to be searched for in the processes of politics. The purpose of this paper is to present empirical evidence to prove that political factors have contributed to the growth of economic power of the industrial *bourgeoisie*. If a consensus emerges on the adequacy or appropriateness of this kind of approach for understanding the phenomenon of 'concentration of economic power', a restructuring of the polity would be needed to eliminate the evils generated by the growth of industrial monopolies. It is being submitted here that frequent amendments of the Company Law, or Monopolies and Restrictive Practices Act, or the establishment of Commissions under the Commission of Inquiry Act, 1952, would not help in the elimination of the serious distortions that have emerged in the Indian economy owing to the phenomenal growth of the power of the few industrial houses. Fundamental ills of society require serious remedial measures; and only a restructuring of the polity can tackle the problem of concentration of economic power in India. The basic argument of the paper would be built around the following sub-sets:

- (1) a brief description of the growth of industrial *bourgeoisie* in India in the twentieth century;
- (2) the history and philosophy of economic planning and the idea of 'mixed economy';
- (3) a brief factual narration of the growth of the economic power of the industrial houses in the post-Independence period;



- (4) a description of the nature of the Indian political system, including the role of political parties and electoral processes;
- (5) nature of relationship between the industrial *bourgeoisie* and the various political and administrative decision-making agencies like parliament, cabinet, bureaucracy, etc.; and
- (6) the role of business organizations like the Federation of Indian Chambers of Commerce and Industry, an apex organization of the industry, in promoting the interests of 'Big Business.'

After discussing and analysing the linkages between 'politics' and 'industry', a few prescriptive remedial measures would be suggested to re-structure the polity. A word of caution must be given here that the relationship between 'politics' and 'industry' cannot be established by direct evidence alone. An attempt has to be made to find out the subtle, indirect, and implicit relationships that obtain between 'politics' and 'industry.' Only this kind of methodological approach—which takes care of both what is implicit and what is explicit—would help in forming a total picture of the societal processes which have contributed to the growth of economic empires in India.

## I

Continuity is the key-note of contemporary Indian social institutions. For this reason, a proper historical perspective would provide a key to the understanding of complex social policy-issues of today. The two world wars brought a spurt in the activities of the nascent industrial *bourgeoisie* of India. This period saw the growth and development of industrial activity of the native industrialist in the field of textiles, jute, sugar, etc. Owing to colonial rule and the absence of private accumulation of capital, the native *bourgeoisie* worked in hostile conditions. But this situation also contributed towards the process which made few native industrialists 'monopolists.' As Charles Bettelheim observes:

"Industrial capital developed late in India, at a time when world capitalism was already at the monopolistic stage. There was naturally a tendency for Indian industrial capital to take monopolistic forms. The managing agencies which British big capital used to exploit colonial India were also used by Indian big capital as a method of combatting foreign capital.<sup>1</sup>"

<sup>1</sup> Charles Bettelheim: *India Independent*, London, Macgibbon & Kee, 1968, p. 63: Also refer: A.I. Levkosky, *Capitalism in India: Basic Trends in Its Development*, Bombay, People's Publishing House, 1966; V.I. Pavlov, *The Indian Capitalist Class: A Historical Study*, Bombay, People's Publishing House, 1964.

Another scholar of Indian capitalism, Levkosky refers to this important aspect:

"One of the specific features of the development of capitalism in India was the fact that in several areas of the country, both British monopolies and the Indian big bourgeoisie were building factories that were quite large for that time. Production and Capital continued to become more and more concentrated...."<sup>2</sup>

It is an important coincidence in India that the twenties and thirties saw the growth of Indian industrial capital and the conversion of the national movement into a mass movement under Gandhi. The industrial bourgeoisie in India clearly saw colonial rule as an impediment to its own growth. The logical position for the Indian bourgeoisie, at that historical time, was that of independent national development. Thus the Indian bourgeoisie joined the bandwagon of the Indian national movement which under the 'coalitional' leadership of Gandhi and Nehru stood for complete independence of India.<sup>3</sup>

In the thirties and forties, national leaders and the economic leaders of industry were concerned with the blueprint of economic and industrial development of India after Independence. Concretely two things happened in this field. First, Subhas Chandra Bose, as President of the Haripura Congress beginning on 19th February, 1938, laid great stress on national planning and appointed Nehru as Chairman of the National Planning Commission.<sup>4</sup>

The National Planning Committee of the Congress had a mixed membership.

As Nehru writes:

"Among the members are well-known industrialists, financiers, economists, professors and scientists, as well as representatives of the Trade Union Congress and of the Village Industries Association. The non-Congress Provincial Governments (Bengal, Punjab and Sind) as well as some of the major States (Hyderabad, Mysore, Travancore, Bhopal) cooperated with this Committee... Hard-headed big business was there, as well as people who are called idealistic and doctrinaire, Socialists and near-Communists".<sup>5</sup>

<sup>2</sup> A.I. Levkosky, *op. cit.*, p. 290.

<sup>3</sup> Refer G.D. Birla, *In the Shadow of Mahatma*, Bombay, Orient Longman's Limited, 1955.

<sup>4</sup> Bose's policy of large-scale industrialization is mentioned as one of the factors which annoyed Gandhians; Tara Chand, *History of the Freedom Movement in India*, Vol. IV, Delhi, Publications Division, Government of India, 1972, p. 272; Also refer Subhas Chandra Bose, *The Indian Struggle*, 1920-42, p. 331.

<sup>5</sup> Jawaharlal Nehru, *The Discovery of India*, 3rd edition, London, 1951, p. 372.

This Committee worked until October 1940, when its Chairman and many of its members were arrested. The industrialists also prepared a blueprint for economic development in post-Independence India. Towards the end of the Second World War, the 'Bombay Plan' was worked out by a group of industrialists including the big ones like Tata, Birla, and Shri Ram.<sup>6</sup> After the transfer of power, the thinking of the pre-Independence days on planning and industrialization was to be concretely applied. In the political and industrial *elite* of India a consensus existed on the role of planning and the path of development on the basis of 'mixed economy.' The 'Bombay Plan' of Indian industrialists clearly refers to the active role of the State in economic development in these words.

"We have, for instance, indicated in that memorandum (first memorandum) that no economic development of the kind proposed by us would be possible except on the basis of a central directing authority, and further that in the initial stages of the plan rigorous measures of state control would be required to prevent an inequitable distribution of the financial burdens involved in it. An enlargement of the positive as well as preventive functions of the state is essential to any large-scale economic planning. This is inherent in the idea of planning and its implications must be fully admitted."<sup>7</sup>

This historical description provides, very briefly, the context in which post-Independence developments can be examined. The goal 'independent national development' brought the national *bourgeoisie* into the struggle for freedom, and the leadership of the national movement responded favourably to the goals of industrialization and positive role of the State in the economic development of the country.<sup>8</sup>

## II

After Independence, the public policy-makers opted for rapid industrialization of the country in the overall framework of economic planning and 'mixed economy.' The Industrial Policy Resolutions of the Government of India of 1948 and 1956, and the various Five-Year Plans have stated these goals and strategy of development very clearly. It must be

<sup>6</sup> Refer, *A Plan of Economic Development for India*, Vols. 1 & 2, USA, Penguin Books, 1945.

<sup>7</sup> *Memorandum Outlining A Plan of Economic Development for India*, Parts 1 & 2, USA, Penguin Books, 1945, pp. 90-91.

<sup>8</sup> The above characterization is of a generalized kind. The national movement of India was a complex phenomenon; and various cross-currents of ideology existed in the movement; and Gandhi had a different blue-print for the post-Independence social construction of India. In spite of this, identity of interests existed between the modernizing political *elite* and the industrialists of the country.

stated here that the social objectives of economic development were to raise the standard of living of the masses and to eradicate poverty and gross inequalities.

The draft of the First Five-Year Plan states:

"It is essential that private enterprise should function in conformity with the social and economic policy of the State, recognise its full responsibilities, and cooperate in the implementation of such measures of control and regulation as are considered necessary...."<sup>9</sup>

Similarly, the Second Five-Year Plan defines the appropriate role of private and public sectors in the economic and social development of the country.

"For creating the appropriate conditions, the State has to take on heavy responsibilities as the principal agency speaking for and acting on behalf of the community as a whole. The public sector has to expand rapidly. It is not only to initiate developments which the private sector is either unwilling or unable to undertake; it has to play the dominant role in shaping the entire pattern of investment in the economy, whether it makes the investments directly or whether these are made by the private sector. The private sector has to play its part within the framework of the comprehensive plan accepted by the community."<sup>10</sup>

The Constitution of India also lays down the objective of harmony between economic development and social goals. The Directive Principles of State Policy enunciated in Article 39(b) and (c) of the Constitution runs thus:

"The State shall in particular direct its policy towards securing (1) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good, and (2) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment."

The framework of economic development as provided by the Five-Year Plans and the Directive Principles of State Policy have got distorted in actual operation. The existing reality is contrary to the expected results. The following evidence would prove this.

<sup>9</sup> *The First Five-Year Plan (A Draft Outline)* Delhi, Planning Commission, Government of India, 1951, p. 155.

<sup>10</sup> *Second Five Year Plan*, New Delhi, Planning Commission, Government of India, 1956, pp. 22-23.

R.K. Hazari's study, *Ownership and Control: A Study of Inter-corporate Investment* relating to companies in which the Tatas, the Birlas, the Mafatlals, the Walchands, and the Mahindras had an interest of one kind or another in or about 1958 shows that these companies had a paid-up capital plus free reserves amounting to Rs. 317 crores. And their total assets were of the value of Rs. 821 crores. These groups entered industry in the twentieth century. The Tatas and the Walchands are the oldest of the five groups. They are followed by the Birlas, the Mafatlals, and the Mahindras—in that order. Table I would reveal their phenomenal growth.

In another study, R. K. Hazari shows the growth in the economic power of the four largest groups in one decade. According to Hazari:

"The four largest groups, Tata, Birla, Martin Burn and Dalmia Sahu Jain, had nearly 18 per cent of the *share capital* of non-government public companies in 1951. This proportion rose to more than 22 per cent in 1958. If their outer circles, *i.e.*, fifty-fifty and minority interests, are also taken into account, the ratio went up from 22 per cent to 27 per cent.

"The share of the four largest groups in the *gross capital stock*, *i.e.*, not fixed assets plus accumulated depreciation plus inventory, of non-government public companies expanded during the same period from 17 per cent to 22 per cent. Including the outer circles, their share rose from 20 to 26 per cent."

In 1958 according to Hazari, the public companies in the Tata and Birla complexes had nearly one-fifth of the gross capital stock of all non-Governmental public companies. Table II would reveal the picture.

The Government of India wanted to curb the growth of the economic power of the corporate sector, and it exercised its licensing power to regulate the functioning of the private sector of Indian economy. The purpose of its licensing policy was to check the growth of monopolies and to help medium-size and small entrepreneurs to develop industries. Deconcentration and decentralization of industrial development was to be achieved by the licensing policy of the Government of India. The regulation of the pattern of industrialisation in the country is sought to be achieved under the Industries (Development and Regulation) Act, 1951, and industrial licensing is the main instrument employed for this purpose.

Licensing as a tool for carrying out industrial policy has the following objectives: (a) Regulation of industrial development in accordance with the planned priorities and canalisation of investment into priority industries;

**Table I**  
**Finances of Five Monopoly Groups in 1958**  
 (Based on a Survey of 540 Companies)<sup>11</sup>

7. 1990 Companies)

Monopoly groups and their capital\*

Sole control	Majority		Fifty-fifty		Minority	
	Foreign companies	Indian companies	Foreign companies	Indian companies	Foreign companies	Indian companies

TATA

No. of companies	48	5	4	1	—	50	17
Net worth (Rs. million)	1,055.3	55.5	7.3	1.5	—	169.4	307.7
Total assets (Rs. million)	2,900.9	112.1	23.0	6.9	—	333.9	544.1

BIRLA

No. of companies	291	2	1	—	1	2	10
Net worth (Rs. million)	990.4	4.2	12.4	—	—	16.0	17.5
Total assets	2,861.3	6.7	26.9	—	3	32.8	34.2

MAFATLAL

No. of companies	15	—	2	—	4	—	6
Net worth (Rs. million)	100.7	—	3.8	—	2.7	—	27.0
Total assets	225.7	—	10.1	—	4.3	—	70.5

WALCHAND

No. of companies	16	—	—	—	4	—	10
Net worth (Rs. million)	95.7	—	—	—	30.2	—	176.2
Total assets (Rs. million)	198.1	—	—	—	93.5	—	497.1

MAHINDRA

No. of companies	4	3	1	1	—	2	—
Net worth (Rs. million)	20.2	0.2	1.5	1.4	—	0.5	—
Total assets (Rs. million)	138.6	0.5	20.8	2.2	—	8.1	—

\*Net worth and total assets are for 496 out of the 540 companies for which balance sheets could be secured.

\*Net worth and total assets are for 496 out of the 540 companies for which balance sheets could be secured.

<sup>11</sup> Out of 540 companies studied by Shri R.K. Hazari, shareholders' lists and balance sheets could be secured for 496 companies. Refer R.K. Hazari, *The Economic Weekly*, Bombay November 8, 1958; November 26, December 3, and December 10, 1960.

**Table II**  
**Public Companies in Four Top Inner Circles<sup>12</sup>**  
 (Gross Capital Stock in Rs. crores)

Name of Group	Year	
	1951	1958
1. Tata	105.23 (7.54)	287.22 (10.74)
2. Birla	62.55 (4.48)	143.44 (5.36)
3. Martin Burn	39.25 (2.81)	89.90 (3.36)
4. D. S. J./Sahu Jain	29.70 (2.12)	71.58 (2.68)
Total	236.73 (16.95)	592.14 (22.14)

(Figures in parentheses are percentage of all non-government public companies)

*Note* :—All data prove the dominance of the few industrial houses over the economy of India. A study of 300 companies, on the basis of their sales, showed that during 1967-68, Tata Iron and Steel topped the list, with a sales figure of Rs. 13,219 lakhs. Bhowra Kanakanee was at the other end, with sales amounting to Rs. 395 lakhs only.<sup>13</sup>

(b) Avoidance of monopoly; (c) Prevention of locational concentration so as to encourage dispersal of industries to under-developed regions; (d) Prevention of undue competition between large-scale industries and small and cottage industries; and (e) optimum utilisation of the scarce foreign exchange resources.<sup>14</sup>

But the actual facts are contrary to the professed policy of the Government of India. The Monopolies Inquiry Commission observed:

“The percentage of licences issued to those applied for,—(1959 to 1963)—works out at 71 per cent for big business and 65.1 per cent for

<sup>12</sup> R.K. Hazari, *The Structure of the Corporate Private Sector* (A Study of Concentration, Ownership and Control) New York, Asia Publishing House, 1966, p. 305; Also refer R.K. Nigam and N. C. Chowdhury, *The Corporate Sector in India*, Research and Statistics Division of the Company Law Administration, Government of India, 1960; M.V. Nam Joshi, *Monopolies in India*, Policy Proposals for a Mixed Economy, Bombay, Lalvani Publishing House, 1966.

<sup>13</sup> *Top 300 Companies 1963-64—1967-68*, New Delhi, Economic and Scientific Research Foundation, 1970, p. 1.

<sup>14</sup> Refer to ARC *Report on Economic Administration*, New Delhi, Government of India, 1968, p. 12.



the rest; the percentage of applications rejected works out at 28.4 per cent for big business and 34.9 per cent for the rest. This analysis clearly demolishes the theory that the licensing authorities favoured smaller businessmen as against the big ones.”<sup>15</sup>

The licensing policy was evolved in 1951 under the Industries (Development and Regulation) Act. The Dutt Committee reports that the Government of India had no policy to check the growth of monopolies. The Committee observes:

“... while the general objective of preventing concentration of economic power and monopolistic tendencies was emphasised on a number of occasions from 1948 onwards, no specific instruction was given that the licensing authorities should keep this purpose in view. Our studies show that licensing in the earlier years was guided far more by technical than by economic leave alone social, considerations. It may, therefore, not be considered surprising that during a large part of the period of inquiry, not only was no attempt made to use licensing to prevent the further growth of the larger Industrial Houses, but the process actually worked in their favour.”<sup>16</sup>

This observation of the Dutt Committee raises serious issues of public policy. Why was the Government saying one thing and doing the other? What is the explanation for this gap between theory and practice of the governmental policies?

The industrial development of any country is dependent on the rate of capital accumulation. If private individuals have accumulated more capital for investment, their economic power is bound to increase.

It has been argued that financial institutions which provide funds for investment should be under public ownership. It is only by bringing financial institutions under public ownership that anti-monopoly policies can be effectively pursued by the Government. For this reason, the nationalization of life insurance and banking industries was advocated in India. It was argued that without public ownership of these financial institutions, monopolistic trends in private corporate sector could not be checked. In pursuance of its policy to curb concentration of economic power, the Government of India nationalized life insurance and banks. But contrary to public expectations, the private sector is receiving huge credit facilities from State

<sup>15</sup> *Report of the Monopolies Inquiry Commission* (1965), Vol. I and II, Government of India, p. 8.

<sup>16</sup> *Report of the Industrial Licensing Policy Inquiry Committee (Main Report)*, (Popularly known as Dutt Committee), New Delhi, Government of India, 1969, p. 183.

organizations like the Life Insurance Corporation and the nationalized banks. In ten years (1956-1966), the private capitalist sector received from State organisations as much as Rs. 8,700 million in the form of credits, deferment in payments and sale of shares. It obtained Rs. 3,700 million of working capital in the form of credits from State Banks.

Ulyanovsky and Pavlov write:

"Financial stimulation of capitalist enterprise by the state is a major law of the capitalist mode of production. Whatever democratic trappings embellish the intensive financial support given by the state to the private capitalist sector, this support inevitably strengthens big capital which ultimately turns into a gigantic force striving to subjugate everything to its interests and, first of all, state power. In this respect, India is no exception. Seventy three groups of big capital united in monopoly associations received during the ten years (1956-66) more than 50 per cent of all the resources redistributed from the state treasury to the private capitalist sector."<sup>17</sup>

After the nationalization of banks in 1969, no significant change has taken place in the direction of public investment in private concerns. A debate was held in the Lok Sabha on August 14, 1974, on the Banking Commission's Report and the working of nationalized banks. Members of the Lok Sabha charged that 'monopoly big houses' had not been delinked from the banks. On the contrary, Members alleged that the big business houses were getting more credit from banks than before their nationalization.<sup>18</sup>

### III

After describing the growth of economic power of a few industrial houses, an analysis of factors responsible for this phenomenon is needed. Why has the government not been able to check the concentration of economic power in spite of its enormous regulative and licensing powers? Why has the Government not been able to achieve its professed public policies in relation to the functioning of the private corporate sector? These are fundamental questions, and answers have to be found for them in the body politic of the country.

India has opted for an "open competitive political system" where legitimacy of the Government depends on electoral performance. Periodical

<sup>17</sup> R. Ulyanovsky and V. Pavlov, *Asian Dilemma: A Soviet View and Myrdal's Concept*, Moscow, Progress Publishers, 1973, p. 106.

<sup>18</sup> *Times of India*, Delhi, 15th August, 1974.

elections and competitive party system are two important components or parts of this system.<sup>19</sup>

A most important characteristic of the Indian party system is the dominance of the Congress party. In all the five general elections it has been returned to power in the Centre and in the majority of states. The path of development followed by India after Independence was decided by the Congress party. The Congress has tried to evolve a 'consensus model' of functioning and has attracted all sections of society to its platform. The party has made a deliberate effort to make its social base as broad as possible. The nostalgic hangover of the national movement phase is reflected in the post-Independence party-building strategy adopted by the Congress. In the Congress Party we find the full diversities of Indian social life fully represented. The party has, as its members, workers and capitalists, landless peasants and rich farmers, upper-caste and lower-caste Hindus, and members of all religious communities. In social outlook, the Congress Party has a full quota of secularists as well as communalists, modernists as well as traditionalists. It has a foothold in both urban and rural areas of the country. This description of the social base of the Congress party superficially shows that it has not identified itself with any one dominant social group. India is a 'multi-structural' society where one finds the co-existence of archaic feudal and semi-feudal relationships with pro-capitalist and highly developed capitalist social formations. The most important characteristic of Indian society is absolute unequal distribution of social and economic power in the various segments of society. The largest cultivable land area is owned by a minority of people. And in the urban sector are found petty shop-keepers and small entrepreneurs in thousands overshadowed by the economic empires of the 'big industrial houses'. In this social *milieu* characterized by absolute unequal distribution of power—the Congress party operates. Other social groups only add to the numerical strength of the party. A clear understanding of the social base of the Congress party would provide an answer to many questions which have been raised here with regard to the growth of the economic power of a few industrial houses<sup>20</sup>.

For understanding a political party, one has to know its social base as well as ideology or programme of action. The Congress party has been struggling since Independence to define its programme of action. And in this effort it has got stuck with a vague concept of 'democratic socialism'.

<sup>19</sup> "A political system is a collection of recognizable units, which are characterized by cohesion and co-variance. Cohesion means sticking together, or forming a whole. . . . Co-variance means changing together. If one unit changes, the other does, too." Karl W. Deutsch, *Politics and Government: How People Decide Their Fate*, Boston, Houghton Mifflin Company, 1970, p. 116.

<sup>20</sup> Refer C. P. Bhambhri, "Ideology and Political Parties in India," *Economic and Political Weekly*, Bombay, April 20, 1968, pp. 643-646.

Even this programme of 'democratic socialism' has had to be defined and re-defined many a time by the Congress. With each attempt to define its goal, the content has thinned. The Congress has always had a hard core of opponents to any kind of socialism put forward by it. The Congress split of 1969, which was given an ideological orientation, occurred on the basis of sharp differences in the party on the programme of bank nationalization. In spite of ideological controversies in the party, it remained committed to the concept of private enterprise regulated by state intervention. Many industrialists consistently supported the Congress because there existed an identity of interests and commonness of goals between the two. Whatever little wavering of support that some industrialists had towards the Congress was set right by the experience of Leftist coalition Governments of 1967-69. The industrialists under the Congress party Government were getting full protection and encouragement to expand and earn. This protection was withdrawn by the coalition Government in West Bengal. The private corporate sector felt highly insecure without the Congress party.

This longish description of the Congress party shows that its policies are directly responsible for the growth of the private sector in India. The party believes in a substantial role for the private sector; and the capitalists who are its supporters get many concessions and exercise great influence on policy-makers of the party.

To prove further that the private corporate sector tries to exercise an effective influence on Congress policies, evidence from the electoral process is helpful. The capitalists of India generously have financed the Congress party in the elections and other activities concerning party management.

In a statement laid on the table of the Lok Sabha on February 17, 1965, Mr. T.T. Krishnamachari stated that of Rs. 11,500,000 contributed by companies to political parties from the middle of September 1961 to the middle of September 1964, the Congress received Rs. 9,800,000 and the Swatantra party Rs. 1,500,000 lakhs, while the remaining small sum went to a number of other parties.<sup>21</sup> This pattern of financial support extended to the parties is confirmed by another study made by the Government of India of company contributions. The study shows that from 1962 to 1968 companies officially contributed Rs. 25,970,797 to forty-seven political parties. The only two significant recipients were the Congress party, which received Rs. 20,552,798 and the Swatantra party, which received less than a quarter of the Congress party share or Rs. 4,602,553. The remaining forty-five parties together received only Rs. 815,446. The largest sums were distributed around election time.<sup>22</sup>

<sup>21</sup> Refer M. V. Namjoshi, *Monopolies in India: Policy Proposals for a Mixed Economy*, Bombay, Lalwani Publishing House, 1966, p. 84.

<sup>22</sup> C. P. Bhambhri, "General Elections and Political Competition in India," *Political Science Review*, Jaipur Vol. VII Nos. 3 & 4, 1968, pp. 760-779.

Yet another study also shows that the leading 126 companies contributed Rs. 10,000,000 to political parties in 1967. The Congress party received Rs. 7,370,000; and the Swatantra party, Rs. 2,520,000. The two biggest houses—the Tatas and the Birlas—together accounted for 34 per cent of the total contributed by these 126 major companies.<sup>23</sup> The Tatas, the Birlas, the Khataus, Martin Burn Ltd., and 27 other companies contributed a sum of Rs. 68,74,571 to Congress and Rs. 19,21,500 to the Swatantra Party funds, accounting for 74.72 per cent of the total collections from the big business by the former and 89.87 per cent for the latter during 1961-64. The funds for party purposes have been collected by the prominent party leaders on various occasions like their birthdays. A purse of Rs. 43,53,241 was presented to Shri C.P. Gupta in 1966.<sup>24</sup>

The general elections in India have become very competitive. The percentage of voter turnover has been increasing with every general election. With growing political competition, the Congress party feels threatened. Hence to win the election, it invests more financial resources. An important newspaper estimated that it invested as much as 250 to 500 million rupees for elections to the 1971 Lok Sabha.<sup>25</sup> The following table shows the growing competitive character of Indian elections.

Table III

	Percentage of Valid Votes Polled*	Percentage of Total Votes Polled by Congress†
1952	45.67	45.00
1957	47.74	47.78
1962	55.42	46.02
1967	61.33	40.73
1971	55.22	43.69

\*Chandidas, R., "Poll Participation Slump", *Economic & Political Weekly*, Vol. VII, No. 29, July, 1972.

†Hardgrave, R. L., *India—Government and Politics* in Harcourt, Brace & World, Inc.

Table III clearly shows that with the increase in the turnover of the voters, the Congress party vote declines. The party invests huge funds to maintain its position.

<sup>23</sup> *The Economic Times* (Bombay), December 5, 1967. In 1969 a bill prohibiting company contributions to political parties was passed.

<sup>24</sup> For details refer R. P. Bhalla, *Elections in India* (1950-1972), New Delhi, S. Chand & Co., 1973, pp. 326-331.

<sup>25</sup> Editorial in the Overseas, *Hindustan Times*, January 30, 1971.

The political process in a democratic system is quite complex. If the capitalists want to influence political decision-makers they provide funds to the parties as well as individuals. Important party leaders, and effective speakers in Parliament are also supported by individual industrialists. For a capitalist, financing a party or important individuals in politics is an investment for safeguarding his interests. Thus, by generously financing the Congress party and its activities, the important industrial houses establish linkages with the political decision-makers with a view to influencing their decisions.

Besides the support which the industrial houses have got from the ruling party in managing their economic activities, a few other important facts have been empirically observed to prove the existence of close linkages between big business and the political system of India.

(1) Individual industrialists extend financial support to some individuals for contesting elections to the Lok Sabha. After winning the elections, such members of Parliament try to influence public policies which concern the industrialists.

(2) Important industrialists or their business executives contest elections to the Lok Sabha. Their presence in the Lok Sabha ensures that the 'business viewpoint' is freely expressed on the floor of the House and in Parliamentary Committees. Babubhai Chinai, G.D. Somani, Minoo Masani, Piloo Mody are some of the important businessmen or business executives who have been members of the Lok Sabha. Mr. G.L. Bansal, who was the Secretary-General of the Federation of the Indian Chambers of Commerce and Industry (FICCI) was also a member of the Lok Sabha. He was an official of the most important business organization and was also a member of Parliament. Important industrialists like Naval H. Tata, K.K. Birla and Ramnath Goenka contested elections in 1971. Thus, the forum of Parliament is used by businessmen to influence Government policy and extract concessions. Membership of Parliament and economic status give the business houses a vantage position from which to penetrate into the corridors of political power.

(3) The Indian industrialist has a network of organizations to defend his interests. In India, association of industrialists exist at both regional and national levels. Its apex organization, (FICCI) has its headquarters in New Delhi. It is very active in promoting and safeguarding the interests of industry. It maintains contacts with the Prime Minister and with Cabinet Ministers dealing with economic affairs. The Prime Minister and other important Ministers are invited by FICCI to its functions to hold a dialogue between the government and industry. FICCI publishes documents, and

submits memoranda to the Government with a view to influencing its decisions on the economic management of the country. As Kochanek writes:

"Through its organized associations, business supplements its formal advisory role by initiating direct contact through written memoranda, personal deputation, petitions, correspondence, resolution, meetings, seminars and press releases. Business associates also maintain day-to-day contact with both the working level and the top echelons of the bureaucracy. Finally, because business associations do not handle individual problems of their constituencies, business firms and houses have found it necessary to supplement their collective approach to government by a system of administrative liaison and lobbying which is conducted through industrial embassies."<sup>26</sup>

The Government of India has legitimized business associations by consulting them on various problems facing the economy and policies of the Government. The Government and the industrial houses have well-developed channels of communication and consultation at both formal and informal levels. Mr. T.T. Krishnamachari once stated that while formulating the First Five-Year Plan, the basic targets for the various private industries had been worked out by a large number of special committees, which included businessmen. "The targets themselves for the private sector," he said, "were thus determined in full consultation with leaders of industry, and their fulfilment called for a high degree of assistance from and cooperation of the Government."<sup>27</sup>

(4) Those who wield economic power also control mechanisms of influencing public opinion and the policy-makers. All the important industrial houses own national daily newspapers. Newspapers with the largest circulation in India are owned by well-known industrial houses. Newspapers are used by the industrialists to advise, criticize, and warn the Government regarding its economic policies.

(5) Important industrialists maintain formal and informal contacts with political leaders and the higher echelons of bureaucracy by providing lucrative employment to their sons and daughters. In the Indian context, this business of providing employment to the children of politically influential persons gives the industrialists effective leverage. And they have exercised this leverage very successfully. It is public knowledge that near relations of important political leaders in India are in the employment of private industrial houses. This can give rise to a *quid pro quo* between the industrialists and the public policy-makers.

<sup>26</sup> Stanley A. Kochanek: *Business and Politics in India*, Berkeley, University of California Press, 1974, pp. 274-75.

<sup>27</sup> Quoted by A. I. Levkosky, *op. cit.*, p. 591.



(6) Industrialists maintain professional contact men and lobbyists near the seat of Governmental power to get concessions. The Vivian Bose Commission, while investigating LIC investments in the Mundhra concerns, brought out this fact very clearly in its report.<sup>28</sup>

(7) The role of money has been witnessed in engineering political instability in the Indian states in 1967-70. 'Defections' in politics which became a popular feature of this phase were arranged by bribing the willing MLAs. The big *bourgeoisie* was not involved in this game. The significance of this characteristic of Indian politics is that money can be used by the *bourgeoisie* to topple the inconvenient Governments.<sup>29</sup>

To sum up, the big industrial houses function like a pressure group, finance the parties, establish linkages with the political leaders and exercise their economic power for influencing public policy-makers. This shows clearly that the concentration of economic power is not possible without support from the ruling party. And its consequences can be disastrous. D.R. Gadgil rightly observed:

"Considerable influence vested in groups in whose hands economic power is concentrated may lead, even if it does not result in economic gains in favour of the groups, to giving particular direction to State policy which may not be in consonance with either national will or national interest."<sup>30</sup>

#### IV

How to tackle the power of the economically powerful? The experience of the last twenty-seven years shows that the legal machinery created for the purpose has not been able to check the growth of the economic power of the few industrial houses. The Government of India has appointed many Commissions to suggest measures that may limit the growing power of the monopoly houses. These reports have failed to suggest methods for effectively controlling the economically powerful social groups because they have not gone into the fundamentals of this problem. A brief critique of the approach of the Monopoly Inquiry Commission would prove that the problem was being tackled at the peripheral level. This Commission points out three factors which favour big business in their efforts to obtain licences for starting new industries or to expand the existing capacity. First, big

<sup>28</sup> C. P. Bhambhri, *Bureaucracy and Politics in India*, Delhi, Vikas Publishing House, 1970. Hari Das Mundhra also admitted to have contributed to the Congress party election funds).

<sup>29</sup> Subhash C. Kashyap, *The Politics of Power*, Delhi, 1974.

<sup>30</sup> D. R. Gadgil, *Planning and Economic Policy in India*, Poona, Gokhale Institute of Politics and Economics, 1972, p. 356.

businessmen are in a better position to raise the large amounts of capital required for setting up modern plants in most industries. Hence licences granted to them would not remain unutilized. Secondly, licensing authorities prefer men of proven ability and success to those who are still to establish their ability. Thirdly, big businessmen are able to get new licences because they could easily secure foreign collaboration.

All these three factors are well-known and are used by well-established *entrepreneurs*. And it is precisely to meet these three that the Commission was first appointed. The failure of the Commission to grapple with the complexity of the problem becomes clear in its Chapter on "Consequences of Concentration" where only superficial aspects like conspicuous living, consumption, etc., are mentioned as important consequences of concentration. R.C. Dutt in his note of dissent takes a fundamental position by suggesting that:

"Concentrated economic power involves control of large resources, and also of large areas of production and of the economy as a whole. Those who have this control are in a position to influence the economic policy in a large measure, irrespective entirely of their relationship with political parties, whether in opposition or in power, or even their relationship with individuals in authority."<sup>31</sup>

Dutt regards economic development as an autonomous phenomenon, as a phenomenon not subject to political support or opposition. His position is contrary to the basic position taken in this paper that the concentration of economic power in India is a result of the ability of big industrial houses to exercise considerable influence on political authorities and the whole decision-making system of the Government. If concentration of economic power has to be checked, we should ensure the autonomy of the political system. A political system which can effectively control the social and economic problems of India can break economic monopolies in the country. The Indian political system cannot be autonomous so long as political parties depend for funds and patronage on the industrialists. Elections are a public activity in a democracy, and they must be financed by the public exchequer.<sup>32</sup>

There seems to be no other method of checking penetration of big business in the political process. If the political system of India has not to become subservient to the economically powerful, the finances needed for recognized and legitimate political activities should be provided by the State. This is one remedial measure of a basic character which would restore the autonomy of the political system.

<sup>31</sup> *Report of the Monopolies Inquiry Commission*, 1965, p. 193.

<sup>32</sup> C. P. Bhambhri, "Institutional Innovation", *The Hindustan Times*, July 26, 1974.

Further, the political and administrative decision-makers are economically in a lower status group while dealing with the representatives of industry. The salary and emolument structure of those in the private industry should be rationalized in such a way that no business executive gets a salary higher than that of a Secretary to the Government of India. This rationalization of the salary structure would bring business executives and political and administrative decision-makers socially at par, and they would be able to deal with each other as equals. In the present system, the dealings are between unequals, and those who have economic power are able to dictate to the formulators of public policy.

#### SUMMING UP

The concentration of economic power has serious social and political consequences. It can subvert the political system and distort social goals. Hence concentration of economic power should be checked. The growth of the industrial houses, both in breadth and in depth, in the post-Independence period cannot be explained without understanding its linkages with the public policy-makers. The industrial houses have evolved multiple mechanisms to influence the Governmental decision-making system. If this process is not checked, concentration of economic power would grow, and the political system would become subservient to economic power. This process can be halted by restoring the autonomy of the political system and a fundamental restructuring of the polity. We may conclude with the following warning of Prof. D.R. Gadgil.

“Socially, it might be apprehended that the results of concentration of economic power may upset balance in society. If those in whose hands economic power is concentrated belong to particular groups within non-homogeneous society, concentration of economic power may result in increasing the social preponderance of particular groups, and if concentration happens to be in numerically small groups, the disequilibrium may become particularly dangerous.”<sup>33</sup>

These dangerous social consequences of the concentration of economic power cannot be controlled without restoring the vitality of the Government. The Government is the only control system in our society, and only through the exercise of its coercive power can the other powerful social units be controlled. The recent furore in the Lok Sabha on the role of MPs in getting a licence for a firm is another evidence to prove the position taken in this paper.

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<sup>33</sup> D. R. Gadgil, *Planning and Economic Policy in India*, op. cit., p. 356.

## INDIAN INVESTMENT OVERSEAS

*K. C. Sodhia*

INTERNATIONALISATION of capital and technology has been a recent world phenomenon. With the development of "intermediate technology"<sup>1</sup> by some of the developed amongst the developing countries like India, there are significant instances of capital and technology flows not only within the developing countries themselves but also in a few cases from the developing to the developed ones.

Most of the countries of the Third World and the Fourth World (oil producing countries) achieved independent sovereign status only in the fifties and early sixties. These newly emerging developing countries are naturally keen to put economic content in their political freedom by providing employment to their populace, building infrastructure facilities, increasing industrial and agricultural production and thus generally raising the standard of living of their people. However, not all of these countries are endowed evenly with all the industrial resources, infrastructure facilities (like power, transport, communications, irrigation, social services, etc.) and a technology to support and sustain industrial growth on their own.

The highly sophisticated technologies developed by the advanced countries may not be appropriate to the development needs of the developing countries, specially in terms of effective utilisation of resource endowments, and huge requirements of imported capital, skilled labour, social and economic overhead costs, etc. It is in this context, that an agreement was reached in the United Nations that particular attention will have to be devoted to fostering technologies suitable for the developing countries.

Economic cooperation amongst developing countries themselves has naturally, therefore, assumed a great significance. A tripartite agreement

<sup>1</sup> A technology which is less expensive and more suited to the socio-economic conditions of not-so-developed countries. Most of these countries are engaged in either exploiting and processing raw materials for export or setting up units to provide domestic substitutes for imported goods, particularly consumer goods. Scarcity of capital, inadequate domestic savings, shortage of technical know-how and lack of entrepreneurship as well as the small size of domestic market have made these countries to concentrate on the development of small and medium scale industries. "Intermediate technology" which is neither highly sophisticated nor capital intensive is more suitable to develop these industries in the developing countries.

between India, U.A.R. and Yugoslavia in 1966, the "Charter of Algiers" adopted in 1967 by the ministerial meeting of the "Group of 77", the Lusaka Declaration in 1970, UNIDO-ECAFE Third Asian Meeting held in November 1973, and the Action Programme for Economic Cooperation drawn at the Fourth Summit Conference of non-aligned countries held in December 1973—all laid stress on accelerated capital and technology flows within the developing countries themselves.

#### INTERMEDIATE TECHNOLOGY DEVELOPED BY INDIA

Since the attainment of Independence in, 1947 India has undergone rapid transformation from an agrarian economy to a growing industrial nation. India's industrial structure now stands substantially diversified not only quantitatively but also qualitatively. The characteristics of a dissolute, stagnant economy—existence of traditional, agriculture-based industries, managerial and technical skills confined to a few managing agency houses, foreign trade in traditional raw materials and virtual absence of machine building industry—have given way to a dynamic and progressive economy. The index of industrial production (1960=100) has increased from 54.8 in 1951 to 199.4 in 1972. Massive industrial investment of about Rs. 270 billion during the first four five year plans went into the development of basic infrastructure facilities and industries like steel mills, fertiliser plants, heavy machinery plants, oil refineries, locomotive works and generation of electricity. Another Rs. 135 billion are planned for investment in industry during the Fifth Plan.<sup>2</sup>

To give some figures, steel production was about a million tonnes in 1951. Today, it is over five times that figure. Production of coal has more than doubled from 34 million tonnes to 79.3 million tonnes. Electricity generated increased from 16.9 billion KWH to 636 billion KWH. Cement production has risen nearly by 5 times to 16 million tonnes. What is significant is that there have been improvements in the methods of production, sales promotion and packaging; innovations and inventions have been encouraged; special research and design facilities, which have an important bearing on industrial development, have been developed in national laboratories and other institutions set up in different parts of the country. As a result, India today is in a position to provide not only most of the requisites of consumption but also substantial part of industrial inputs in men, material and machines. The Fifth Five Year Plan (1974-75 to 1978-79) envisages a growth rate of 8.1 per cent in the industrial sector, with an investment of Rs. 135 billion. With the achievement of the postulated target, the Indian economy should well be on the path of self-reliance.

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<sup>2</sup> Draft Fifth Plan.

All in all, as is relevant to this article, the Indian economy has acquired capability, experience and expertise which is a synthesis of imported technology and skills, its adaptation under the conditions of a developing economy as well as the fruits of indigenous R & D efforts. The product of this synthesis is termed as "intermediate technology" and the country has begun to share it with the co-developing countries and also some developed countries. Naturally, this has found expression in Government's policy on foreign investment indirectly. Referring to India's capability of investing abroad, the draft five year plan says, "The objective of the policy is to move forward to a position in which the country is not merely a recipient of foreign technology but becomes also capable of exporting know-how in certain fields to bring a measure of balance." The intermediate technology developed by India is particularly relevant and appropriate to the newly emerging countries as these countries have more or less the same socio-economic conditions and problems which India faced 15 to 20 years ago.<sup>3</sup> International agencies, foreign governments and overseas entrepreneurs have fully recognised this fact, so much so that the UNIDO-ECAFE Asian meeting held in November 1973 named India as one of the resource-giving countries.

#### ESTIMATES OF EXISTING INDIAN OVERSEAS INVESTMENT

By September 1974, over 200 overseas ventures received approval of the Government of India. The total investment in these ventures is estimated to be of the order of Rs. 240 million. Out of the total approved projects abroad, 47 are in operation (investment: Rs. 78 million), 46 under implementation (investment: Rs. 161 million) and 9 have been approved in principle. However, as many as 50 per cent fell by the way side and only 102 of them are either in production or in varying stages of implementation. The joint ventures are spread over a wide range of industries dispersed over a large number of countries (as many as 25 countries mostly of Africa and Asia and also some of the developed countries like the West Germany, U.K., Ireland, U.S.A. and Canada). While a majority of projects pertain to the production of light consumer and engineering goods, a few of them involve setting up of complete plants for production of sugar, textiles, paper, cement, etc. Forty-seven of them are already in the production of semi-sophisticated and technologically-oriented products.

India's capabilities as a resource-giving country have now been accepted by the developing countries.<sup>4</sup> For setting up joint ventures abroad India is

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<sup>3</sup> Report on Indian Businessmen's Industrial Delegation to West Africa, 13th Oct.—9th Nov., 1965.

<sup>4</sup> Investing in Developing Countries—facilities for promotion of foreign private investment in Developing countries, OECD, 1970.

in a position to supply capital equipment, know-how and management expertise in almost all industrial fields, in accordance with the plans of industrialisation formulated by the developing countries. There has now emerged a new entrepreneurial and managerial class which has the necessary capacity, competence and willingness to participate in these programmes. India has, of late, developed an extensive infrastructure of technical and managerial consultants capable of offering full range of consultancy services right from making general surveys to setting up of complete industrial plants on turnkey basis. In his budget speech, presenting the Railway Budget for 1974-75, the Railway Minister announced the decision of the Government to set up a railway consultancy unit to undertake consultancy work for foreign railways and international agencies. In addition to setting up units on its own in the developing countries, India can also cooperate with the developed countries in establishing multinational industrial ventures in third countries.

#### OVERSEAS VENTURES AS A TOOL OF EXPORT PROMOTION

Apart from its contribution to regional economic cooperation, the institution of joint ventures abroad has become a part of the new export strategy with a view to promote exports and forge economic and commercial links with developing countries. In the present context of enormous increase in the cost of our imports and in the wake of 'oil crisis', stepping up of export efforts to achieve much more than the 15 per cent (revised) growth rate postulated in the Fifth Plan is of vital importance. Joint ventures abroad can play their part in these efforts.

In the setting up of overseas ventures, export earnings flow directly through additional exports of equipment and components needed for the project. Earnings in foreign exchange subsequently flow from dividend on equity participation in the ventures and from provision of consultancy services, management fees, etc. The country gains additionally by getting an opportunity to demonstrate the efficiency and adaptability of Indian capital equipment and this helps further penetration into the markets abroad. Studies have shown that capital invested overseas makes a higher contribution to the national income of the capital exporting country than what it would have done if it had not been so invested.<sup>5</sup> Gains from knowledge sharing are also important. It is suggested that "much direct investment overseas would not appear attractive to the parent company if it did not provide a means of extending the use of existing knowledge at little or no extra cost".<sup>6</sup>

It is estimated that the existing overseas ventures have so far helped to export capital equipment of nearly Rs. 100 million. In addition, Rs. 16.5

<sup>5</sup> W. B. Reddaway, *Effects of U.K. Direct Investment Overseas*, Final Report of a Research Study, Department of Applied Economics, University of Cambridge, 1968, p. 348.

<sup>6</sup> *ibid.*, pp. 350-51.



million by way of other incomes such as dividend, technical know-how fees, royalties and management fees, etc., have been earned by these ventures. However, most of the overseas ventures were accorded approval by the Government during the last 6-7 years. It is, therefore, too early to expect appreciable flow of income by way of dividends back to India; the projects have generally 3-5 years of gestation period during which adequate profits do not ordinarily accrue. Moreover, the actual rate of return and direct exports on a joint venture basis have limited validity for evaluating the totality of its impact for the exporting country. A number of other factors will have to be taken into consideration such as the import content of capital equipment exported, the possibility of exporting it for payment in cash, earnings of foreign exchange by way of additional exports, the scope for complementary exports, impact on future exports to the host and adjacent countries, the intangible benefits such as goodwill, etc. No adequate data is yet available on the various factors to make a proper evaluation of the impact of Indian overseas ventures on the Indian economy. The Estimates Committee has, nevertheless, felt that "the establishment of joint ventures abroad has helped India to increase exports of machinery, capital goods, raw materials, semi-processed manufactures, spare parts, components, technical know-how, etc., and in continuous earning of foreign exchange from the exports of these items".

#### GOVERNMENT POLICY

The talk of pushing up India's overseas investment may appear incongruous when India herself imports foreign capital and technology for her own ambitious development programmes. The "Guidelines" laid down by the Government for encouraging and promoting joint ventures abroad are, however, consistent with India's limitations. The accent in the guidelines is on allowing collaborations in the form of equity participation up to the value of capital goods, machinery and technological expertise exported from India. Export of cash is not allowed and only minority Indian equity participation is preferred. Only in exceptional cases and that too when the host country so desires, majority participation is permitted. It may be noted that this is in conformity with what India herself asks of foreign enterprises in India. Other important principles in the Government policy are:

- (i) to encourage, as far as possible, turnkey jobs by Indian entrepreneurs in view of the paucity of technical manpower and modern management skills in the developing countries, and also to reduce the responsibility of the foreign partner, and to shorten the gestation period of the project.
- (ii) to train nationals of the host country so that they are able to take the ultimate responsibility of operating the enterprise on their own as quickly as possible; and

- (iii) to create export opportunities in foreign markets for capital equipments, spare parts, semi-processed manufactures, components, etc.

Apparently, Government's policy remains restrictive and necessarily punctuated with caution and restraint. Reasons for this are not far to seek. In the context of difficult balance of payment situation, presently accentuated by phenomenal increase in the oil prices, the country can ill afford to invest abroad particularly when the return on such investments is expected to be received only after some years. The dividend earnings generally accrue a few years after the projects have gone into production and the repatriation of the cost of capital equipment represented by equity investment can only be expected over a period of 10 to 20 years and that too, when dividend earnings are substantially higher than the prevailing rate of interest in the country itself. To the extent capital equipment is sent out to form Indian share of equity, the country is deprived of immediate foreign exchange accruals. There are also several other economic and political factors which inhibit a more liberal policy towards investment abroad. Some of these are:

- (i) absence of organised stock markets in host countries, making it difficult to raise equity capital in local currencies;
- (ii) absence of institutional machinery for raising finances;
- (iii) difficulty in locating a reliable local partner with the requisite means to provide a fair share of equity;
- (iv) lack of essential infrastructural facilities;
- (v) absence of skilled manpower and management expertise, limited local markets; and, above all;
- (vi) disturbed political conditions which do not inspire confidence about the security of investment and continuance of liberal industrial and taxation policies.

Despite these economic and political constraints, investment overseas is being encouraged for its indirect benefits of export promotion. It also helps to encourage regional economic cooperation and generates a sense of participation in the task of economic development of the co-developing countries<sup>7</sup>.

#### FOREIGN EXCHANGE REGULATIONS ACT

The Foreign Exchange Regulation Act 1973 enjoins Indian promoters of joint ventures abroad to obtain Government's prior permission before

<sup>7</sup> "Management of Direct Investments in Less Developed Countries," a report submitted to the Research Centre of the University of Amsterdam,

committing themselves to any investment in a joint venture abroad. Even the Indian parties who, with prior permission of the Government before promulgation of the Act, had made such investments, are required to obtain Government's approval afresh. The Government may on application grant permission subject to such terms and conditions as it may wish to impose. The Indian promoters are also required to comply with such instructions and submit such information and documents as the Reserve Bank of India may require from time to time.

The Act provides a legal basis for the Government to require Indian promoters to obtain its permission before making any investment abroad. The Government is now enabled to control, supervise and oversee the operations of Indian joint ventures abroad and to collect and collate such information as it may require in order to evaluate the performance of the joint ventures and to ensure repatriation of profits, know-how fee, royalties, etc. The provisions of the Act are wholesome and desirable; it is, however, incumbent on the Government to expedite consideration of applications and expedite approvals in order to enable Indian promoters to meet tight time schedule laid down by various countries for putting up projects.

#### DIFFICULTIES AND PROBLEMS

Indian entrepreneurs have, from time to time, advocated changes in the existing "guidelines" so as to enable them to fully exploit the opportunities for Indian collaboration abroad. Some of the more important difficulties arising out of the current policy and other obstacles in the promotion of joint ventures abroad are discussed below:

- (i) The "Guidelines" restrict Indian investment to manufacturing activities only. It would be desirable to extend them to cover investment in marketing, insurance, banking, etc. also.
- (ii) It is argued, and for good reasons too, that a portion of Indian equity in joint ventures abroad should be allowed to be financed in cash. There is no denying the fact that the inability of the Indian entrepreneurs to subscribe a portion of the equity in cash puts them at a disadvantage *vis-a-vis* entrepreneurs from industrialised countries. This is particularly so on account of India's limitations in offering deferred payment facilities through suppliers' credits or export credits on long term and concessional basis and difficulties of raising financial resources due to the under-developed capital money markets in the developing countries.
- (iii) The Government's policy of not allowing cash remittances leads to problems in the event of an over-run on the project costs or in

cases where the joint venture runs into losses in the initial period. In the former case, the Indian contribution to the equity needs to be augmented proportionately to meet the additional costs. By then the supply of equipment might have been completed and it might no longer be possible to contribute the additional amount of equity in the form of machinery and equipment. In the latter case, short-term loans need to be raised by the joint venture; the local banks may be able to provide the additional funds only on the strength of a part of the requirements being met by the parent Indian company. In either case, small cash remittance from India in foreign exchanges becomes necessary. The amount of cash remittance may not exceed 10 per cent of the initial Indian contribution to the equity. Projects involving considerable investment are generally financed by loans and equity raised from international institutions. While negotiating with them for equity and/or loans, they insist on a clause requiring proportionate contribution by all parties towards eventual over-run on the project costs. In the circumstances, the Indian promoter needs to be armed with Government's permission for allowing remittance in foreign exchange for meeting their share of the additional equity. The Government's policy at present does not allow Indian promoters to enter into any such commitment. This precludes them from participating in large projects which would otherwise contribute substantially towards export of Indian machinery and equipment, know-how fee and royalty, etc.

- (iv) Without adequate subsidy or rebate, some of the Indian capital goods and equipment cannot compete successfully in international markets. The high cost of Indian equipment results in over-capitalisation of the joint venture projects.
- (v) The rate of mortality of the joint venture proposals seems to be too high—almost 50 per cent of the approved proposals. One of the important reasons for this high mortality rate is the insufficient attention paid by Indian promoters to detailed feasibility studies. In most of the developing countries there is complete absence of techno-economic studies. The Indian entrepreneur has to incur substantial expenditure from his own pocket in carrying out the feasibility studies before making up his mind about investment. The burden of this expenditure is particularly felt by small and medium entrepreneurs whom the Government wishes to encourage.
- (vi) Arrangement of funds for financing the export of capital equipment as share of equity in the joint venture often poses a problem.

This is particularly so when a credit squeeze is on and in the face of attractive investment opportunities within India itself.

- (vii) One of the important facilities provided by the exporting countries relates to investment guarantee covering "political" and "non-commercial risks", *i.e.*, risks which are outside the investor's control and for which no commercial insurance is available. The Indian investment abroad is not secure at present against investment risks. Neither the Export Credit and Guarantee Corporation (ECGC) nor any other agency underwrites the risk. The Government is unable to provide insurance against the risk involved mainly for reasons: (a) The small volume of overseas investment makes it impracticable to support a scheme of investment insurance; (b) The political and economic uncertainties in the developing host countries are deterrents; and (c) The possibility of a global scheme of investment insurance makes Governments lukewarm.
- (viii) Finally, the procedural formalities to be completed before the joint venture is actually sanctioned and established are often cumbersome and time-consuming. There is need to simplify administrative procedures and, perhaps, fix a time limit for processing the proposals.

#### SUGGESTIONS

The obstacles outlined above, in a way, themselves suggest ways and means by which they could be overcome. A Workshop on Indian Industrial Joint Ventures Abroad held last year under the aegis of the Federation of Indian Chambers of Commerce and Industry particularly suggested:

- (i) establishment of an Overseas Investment Board with a capital of Rs. 500 million or more for promoting joint ventures abroad, and
- (ii) establishment of a centralised agency for disseminating information.

In connection with the suggestion at (ii) above, the Workshop named the Indian Investment Centre to discharge the functions of the proposed centralised agency. The Indian Investment Centre has already been playing a role in the field of promotion of joint ventures abroad. In the last few years the Centre has attended to over 400 enquiries from Indian parties for setting up joint ventures abroad. Some of the proposals assisted by the Centre have already been approved by the Government. As a part of its effort to bridge the information gap, the Centre has also taken up a programme of preparation and publication of brief 'country profiles' for developing countries,

containing information on investment opportunities, government's policy and procedures and other information of interest to the prospective investors. Such profiles have already been published for Indonesia, Malaysia, Ghana, Fiji, Iran, Philippines and Nigeria.

It has also been suggested<sup>8</sup> that the Indian Investment Centre should establish its branches in the developing countries and if this is not possible, establish at least one such branch in the heart of the Asian continent. In recognition of IIC's role in this field, and as recommended by the Workshop, Government has nominated IIC as the agency to collect, collate and disseminate the relevant information.

A few other suggestions for action are:

- (i) establishment of an 'Overseas Investment Feasibility Fund' to assist Indian entrepreneurs in carrying out detailed feasibility studies abroad before deciding on investment;
- (ii) constitution of an international investment guarantee scheme under the auspices of the World Bank to cover investment risks;
- (iii) harmonisation of investment policies among the developing countries; and
- (iv) simplification of the existing procedures for approval of joint ventures abroad in the interest of expeditious decisions.

If we thus view in perspective the possibilities of the joint ventures abroad in proper spirit and try to find solutions to the problems that are apt to retard their speedy materialisation in the developing countries of the world, it will be apparent that the industrial base as we have been able to establish and diversify in the country, has a great deal to contribute to the mutually beneficial programme and process of economic cooperation.

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<sup>8</sup> V. M. Bhatt, "Indian Investment and Collaboration in Foreign Countries", in *Industrial Development of India—Policy and Problems*, ed. C. N. Vakil.

## BASIC ISSUES IN TECHNOLOGICAL INDEPENDENCE

*V. P. Chitale\**

THE twentieth century, especially the second half, is described as an age of acceleration and the most dynamic and pervasive source of accelerating change is science and the set of multiple technologies that grow from it. In a suggestive work on accelerations, entitled 'The Great Leap', John Brooks uses 1939 as the 'watershed year' between the past and the present period and the major changes reported have their origins in science and technology. Rapid technological changes are taking place in a continuous stream. So complex are the effects of technological change that they have overtaken many countries as problems rather than opportunities.

The dominance of technology in modern times owes much to the basic changes in attitudes and approaches towards technological evolution. Technology is now a deliberate instrument of economic growth. Today, the amount of effort devoted to technological development is stupendous. New technologies are pursued more on the economic calculus of costs and returns and less on existing physical environment. This pursuit has yielded a rich harvest of synthetic resources for supplementing natural resources.

Further, the pursuit for new technologies has been institutionalized in the developed countries for some time. The rapid advances in technology have something to do with the large increases in resources devoted to research and development (R & D) and with the rise in organized R & D efforts through corporate bodies as compared with those of independent inventors. In the post-war period, technological advances have been quite striking and in some cases such as electronics, extremely volatile. The time lag between scientific discovery and its widespread commercial exploitation has narrowed to a great extent. Hence, technology can no longer be considered as a casual factor in speeding industrial growth.

### TECHNOLOGICAL DUALISM IN DEVELOPING COUNTRIES

With technology gaining importance, technology transfers are taking place on a large scale across the globe. One consequence of these transfers

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\*The article is based partly on my study, "Foreign Technology in India", published by The Economic & Scientific Research Foundation, New Delhi. The views expressed are personal and do not represent those of the Institute which I am serving.



has been the emergence of technological dualism in Asia, Africa and Latin America. This dualism came into existence as a result of foreign investment during colonial rule in these regions. It is reflected in simultaneous survival of traditional and modern sectors in a developing economy. The traditional sector is characterized by peasant agriculture, cottage industries, labour-intensive operations and slow growth. In contrast, the modern sector is composed of large-scale plantation, mining and mineral industries which employ capital-intensive techniques and modern methods of management. This sector did not have the capacity to generate employment opportunities at a rate sufficient to absorb the greater labour force. Even the labour-intensive production in the traditional sector has reached the limits of absorbing labour with limited cultivable land. As more and more labour is forced into the traditional sector, marginal productivity of labour has fallen to zero or even below, thus leading to "disguised unemployment". These countries were progressing in small enclaves of foreign investment and manufacturing. It was an advance into a blind alley.

The end of colonialism failed to reverse this process of dualism. Instead, the quest for modernization which has invaded the newly independent poor countries has further accentuated technological dualism with large inflow of foreign aid and private investment and massive imports of plant, machinery and production processes from the developed world. Technological dualism had simply intensified the problems of employment and development in the developing world.

There is, therefore, a growing concern about the fact that the technologies developed for the affluent and industrially advanced countries are by no means best suited to the stage of growth and factor endowments of the developing countries. Although there are compelling reasons for adapting technologies to labour-intensive methods of production, in actual practice the developing countries have acquired new technologies with high capital intensity.

#### CAUSES AND CONSEQUENCES OF TECHNOLOGICAL DUALISM

What are the causes which have forced unwittingly the developing countries to embrace technologies irrelevant to their resource endowment? First, there are external constraints which leave no option but to accept the prevalent technologies. In many, if not most, large-scale industries, the opportunities of choosing from among the available technologies a more economically efficient, but at the same time socially adjustable labour-intensive technique are extremely limited. Some successful modifications in factor composition as have been made have resulted from disaggregating the production function and seeking out those operations that can be

effectively modified, notably in material handling, preparation of parts, packing, and filling. However, these operations are ancillary to the basic processes which have not changed. Hence, the scope for substituting labour for capital is limited. Secondly, modern production techniques mainly evolved for large-scale operations in the developed countries require major adjustments in product designs and systems to make them suitable for small-sized markets in the developing countries. But the current efforts to develop a low-cost production unit for a small volume of output have met with limited success in electronics. But, in general, present technologies are not amenable to a 'scaling down' process. Thirdly, the domestic climate is hardly conducive to the evolution of new technologies. The developing countries have pursued certain policies which come in the way of exploring the right technologies. Lack of organization, shortage of resources and skills are obvious, but can be remedied. The serious impediments to innovation, however, arise from the working of the economic systems. Where capital goods are under-priced and wages over-priced in relation to their productivity, the private profit motive dictates the choice of capital-intensive techniques. Low interest, tax incentives, foreign aid and investment, etc., reinforce those tendencies for capital-intensive production. But there are no fiscal and monetary measures encouraging labour-intensive operations.

Oddly enough, both entrepreneurial hostility and benevolence towards labour yield the same reaction, *viz.*, mechanization. The hostile entrepreneur sees each worker as a potential trouble maker and wants fewer of them. The benevolent manager does not like to run a sweat shop. Hence the entrepreneurs in the developing world believe in the maxim, fewer workers, fewer problems. The rich in the poor country want to wink at the poverty of the poor. They try to insulate themselves from it both psychologically and physically. They do it with gleaming automatic machines in their factories, surrounded by walls at a strolling distance from the nearby slums.

Besides, developing countries have neither the scientific capabilities nor the financial resources to undertake large-scale modifications in the present technologies since low volume demand cannot usually support additional design and engineering costs. In such a situation, the developing countries are forced to accept modern technologies which ensure higher output and mass production which are economical in the long run. Variability in the possible combinations of capital and labour, though desirable in itself, cannot be enforced in the production process in a country which cannot bring the volume of an industry up to the level of applied science, nor science to the low volume. Raising output comes ahead of keeping factor variability. Inevitably, the manufacturing units are largely concerned with duplicating production technologies with minor changes. Technological adjustment

is not done in terms of overcoming critical scarcities in capital and foreign exchange. Small plants are set up mostly to yield commercial returns under protective tariff put sufficiently high to cover what is economically inefficient production by world standards.

#### TECHNOLOGICAL CHOICES IN INDIA

It is against this background of basic limitations of modern technologies as applied to under-developed countries, that one has to assess the appropriateness of diverse technological paths for allround development of our country. Countries like India are confronted with a difficult dilemma: to develop new technologies or to adopt Western technologies. One may question the universal serviceability of modern technologies and condemn the technological dualism caused by slavish imitation of them. The key issue is: Is repudiation of Western technologies and dedication to national technologies possible and desirable? One has to understand the character and roots of technological changes. If technology is merely the stockpile of instruments, a part of the physical environment, its development could be left to the engineers. But the roots of technological changes go deep into the social and institutional factors, and educational and innovation systems. An acceptance of a particular technology plan implies the restructuring of social and political systems and the reorientation of goals of management, labour and government.

#### DECAY OF TRADITIONAL/ORIENTAL TECHNOLOGIES

What are the implications of technological independence? Scarce capital and proliferating population being accepted as given, together with the structure of demand and market imperfections, we had once opted for an appropriate technology path by launching Swadeshi movement during the freedom struggle. Handicraft spinning, the very symbol of Indian Swadeshi, had no parallel in any other country. Mahatma Gandhi wanted to avoid through Swadeshi movement, the evils of industrialism—commercialism and inequality of wealth and power. He wrote, "Swadeshi is that spirit in us which restricts us to the use and service of our immediate surroundings to the exclusion of the more remote."<sup>1</sup> Indeed, Gandhiji hardly put forward a theory of technology or economic growth as such. Machinery was a sign of political oppression and ethical degeneration to him. His appeal was mostly moral and non-economic. But the technology path he had advocated was most suitable to the genre of the nation. Gandhiji's ideology faded into oblivion with the attainment of Independence. His dreams of a self-reliant nation centred on village economy were short-lived. Gandhiji's

<sup>1</sup> *Speeches and Writings of Mahatma Gandhi*, 4th Edition, G. A. Natesan, Madras 1933, p. 336.

ideology of home-made and home-spun technology was out of harmony with the changing mood of the nation. The people were not willing to accept an austere way of life which was the gospel of the Swadeshi movement. Gandhiji's oriental philosophy was anathema even to the Congress leadership which was at the helm of the national affairs. The newly acquired Independence had marked the change in the outlook of a nation. Indian planners and policy-makers impressed by the marvels of modern technology had chosen an industrial development programme based on Western technology. The Five-Year Plans were mainly concerned with the development of the capital-intensive core sector, saving-investment behaviour, resources constraints, balanced sectoral growth, etc. There was no serious discussion on the evolution of indigenous techniques or upgradation of traditional technologies through the pursuit of appropriate research and development schemes. The theoretical thinking and empirical research on the choice of technologies were primarily concerned with shadow pricing of capital and labour inputs in the evaluation of cost-benefit project analysis. But it was soon realized that nothing numerically firm can be said about the social rate of discount which could be used to convert costs/benefits accruing at different points of time to equivalent units. Hence the approach towards choice of technology was vague and abstract and nowhere were concrete programmes spelt to upgrade the existing traditional technologies.

The Five-Year Plans did accord some place to cottage and handicrafts industries in the consumer goods like handloom textiles, hand-pounded rice, ghani oil, palm gur. But this concern for village industries was a part of grand investment strategy for industrialization which Prof. Mahalanobis envisaged in the Second Plan. Investment in producer goods industries was seen as the main spring of development and it was expected to claim a lion's share of capital resources. Consumer good industries starved of capital funds would resort to traditional technology for incremental output and would also absorb more labour. At one stroke, the Mahalanobis model had solved the problems of resources constraints and unemployment by granting a special place to village industries.

But this investment strategy has misfired. As a legacy of British colonialism, India had inherited on the eve of Independence large-scale and capital-intensive units in consumer goods industries. In the absence of concrete proposals to upgrade the traditional techniques, the cottage production survived largely because of subsidies, guaranteed supplies and markets, and prohibition and taxes on factory production/expansion. For example, all the earnings of the ambar charkha spinners were derived directly or indirectly from the government subsidies. The Plan's approach towards traditional technologies is one of protection rather than of promotion. Hence, traditional technologies decayed as the insurance provided by subsidies could not continue *ad infinitum*.

## PROMOTION OF NEW TECHNOLOGIES: CAUSES OF FAILURE

The strategy of heavy industries in the development planning has overlooked the problems of technological absorption involved in building modern industrial infrastructure. The operational, engineering and managerial aspects of mastering technologies in running automatic factories, integrated steel plants, giant petrochemical and fertilizer units, high speed transport system were not properly understood. The quest for setting up plant, the mother plant, grand mother plant and grand grand mother plant proved costly as every step in backward linkage involved higher and more sophisticated employment of technologies. Today, we have only the show pieces of modern technologies, the giant plants—which are mismanaged and underutilized due to haphazard assimilation of production techniques.

We have also met with miserable failure in the promotion of new technologies out of our own efforts. Despite impressive infrastructure of science and technology built up over the past 25 years, our indigenous technologies are still lingering in the infant stage of patents. By any yardstick, our research efforts have not yielded desired results.

## LACK OF SCIENTIFIC ENVIRONMENT AND TECHNOLOGICAL EXPERTISE

What is wrong with our efforts in the promotion of technology? First, at the grass roots, science has a feeble foundation in India. It was introduced in its modern form by the British as a transplanting experiment. Science has been taught and practised for years in an alien language. It has never been taught from the standpoint of its values, its history and its methodology, but was treated as a mere transfer of knowledge. Such a learning of science, devoid of its spirit has made scientists imitators rather than innovators.

The social ethos for scientific culture is conspicuously lacking. India has never been a disciplined society. The basic traits of our society such as lethargy, inefficiency and conservatism have stood in the way of inculcating the dynamic and anti-dogmatic values of scientific culture. Our problems of technological advance cannot be resolved by inviting a few distinguished scientists and technologists from abroad, unless we create a cultural base for innovation. This means, in concrete terms, disciplined labour, and innovative entrepreneur, a dedicated scientist and an enterprising technologist—all working in concert.

The intellectual quality of Indians is outstanding. As individuals, Indian scientists are brilliant. Potential FRS & Nobel Prize men exist by the score in the country. But this intellectual quality is not supported by a

parallel capacity for organizing or executing. This country is, therefore, a bundle of glaring contrasts. On the one hand, she has demonstrated sophisticated technological competence in underground nuclear explosion, while, on the other, she has yet to learn how to run economically and efficiently the power plants and the transport systems.

Secondly, the links between research and industry, if any, are weak and tenuous. Hence the research efforts in the laboratories do not lead to an equivalent development efforts in the industries. Scientific research and technological application are not firmly rooted in concrete objectives such as cost-reduction, quality improvement, diversification of resource base, etc.

Scientific research has been an esoteric exercise since its inception. Jawaharlal Nehru laid down the foundations of scientific research in India by setting up a chain of research laboratories in the early fifties. Government's policy towards science was inspired by high faith in the efficacy of science. There was a general belief that we needed science and technology for the country's development and, in that belief, money and facilities were granted. But neither the givers nor receivers knew what to do with them. Yet the science empire grew rapidly and extended to every conceivable field of human knowledge. Nobody can be against science in this century. Not to have a few landscaped, glass brick research institutes is like not having a modern labour code or an Economic Planning Commission, a national disgrace. But the Laboratories founded on high hopes and vague aspirations can produce unpredictable and embarrassing results. The productivity of R & D expenditure incurred by the government laboratories has been abnormally low. The relative contribution of indigenous know-how to the total value of industrial production has increased barely from one-twentieth of one per cent in 1961-62 to one-eleventh of one per cent in 1969-70. Of late, there is a growing anxiety about the prolific growth of scientific and research activities which have failed to deliver the goods. In the absence of distinct tasks, scientific research has not been responsive to commercial and industrial opportunities. For example, the impact of the CSIR research on the private corporate sector is far from impressive. The value of production arising out of indigenous know-how has remained stagnant at roughly 0.80 per cent of the total value of production in the corporate sector. Similarly, the gross premia and royalty earned comes to barely 1 per cent of the total expenditure of CSIR.

#### REASONS FOR LOW RESEARCH UTILIZATION

What are the causes of low research utilisation? First and foremost has been the lop-sidedness in research efforts. Government agencies alone have financed and carried out over 90 per cent of the total R & D in the

country while there is very little R & D activity in the industry. Government is ploughing a lone furrow on the science and technology frontier without adequate feedback from the industry. Experience everywhere suggests that R & D feeds industrial innovation more effectively if performed in, or closely linked with the industrial sector itself. The weak industry-research link has so far rendered most of the R & D activities irrelevant to the requirements of industrial growth. As a consequence, a lot of development work on research results was never carried through by the industry. Hence, India still remains deficient in design and engineering skills which are vital in successful industrial application of research. Industrialists, right from the beginning adopted a sceptical attitude towards science and research. They view the establishment of national laboratories as an example of government's bureaucratic expansion. A hiatus or a credibility gap between research scientists and industrial entrepreneurs has developed and this hiatus is responsible for the lack of understanding of the innovation process. Technological innovation comprises research, pilot plant, design/development skills, production engineering, marketing, etc. It demands effective participation of the industrialist, consulting engineer, research scientist, business economist, etc. No research is likely to mature unless the whole chain is put into operation. But Indian industrialists have tended to expect exceptional services from CSIR Laboratories in respect of utilization of patents and processes. They have viewed the CSIR know-how as a package deal ready for instant application. No research laboratory has so far assumed the major responsibilities of technological innovation. The lack or inadequacy of consulting firms and design bureaus has further complicated the smooth flow of research to industry. The demand for turnkey jobs from the industrialists has sprung from their lack of industrial R & D experience.

#### CLOSING THE RESEARCH GAP

The main concern is how to close the gap between research and industry. Institutional bottlenecks can be remedied by setting up design bureaus, consulting firms, etc. But the human factor is the most important element in linking research and industry. Most businessmen recognize the value of research, but they are frightened about its practice. This is so everywhere. A staff member of the British technical advisory service reported that even a free service must be heavily promoted. "A high proportion of the time of the staff has been spent visiting firms and telling them what can be offered. As soon as this process is reduced, the number of enquiries falls, so that a continuous effort has to be made."<sup>2</sup> Non-profit research institutes in U.S. do not circulate brochures and wait hopefully. They employ professional sales methods to obtain clients and plan each new contact and follow-up

<sup>2</sup> Quoted by C. F. Carter & B. R. William, *Science in Industry: Policy for Progress*, OUP, 1959.



with elaborate care. Such efforts are even more needed in the under-developed countries. The following remarks of a Puerto Rican manager probably reflect the typical reaction of an industrialist to a first contact of research, "Then these development boys come and ask if they can help me or other managers with our problem. Now isn't that ridiculous? I spent years building up this business. I've lived with these problems day after day and know them like my children. May be I had decades of experience before. And these characters come and say, 'Let me solve your problems'. They never saw a plant like this before?"<sup>3</sup>

To try to persuade such men is not an activity compatible with the traditional attitudes of government laboratories. None of the government sponsored research laboratories in India solicit private contacts with zeal remotely comparable to that of research laboratories in United States.

So far, both the industrialists and the scientists lack basic motivations for technology promotion. The former has been looking for easy accessibility to foreign technology on turn-key basis while the latter displays a lackadaisical attitude toward research utilisation as the funding pattern of research institutes does not hold them accountable for money spent. How to motivate persons for technological innovation? For industrialists, a carrot-and-stick policy would create appropriate climate for R & D efforts. A compulsory research cess is in the offing. Access to foreign technology is becoming progressively selective and limited. Some tax incentives have been granted and more incentives would be needed especially to small innovative enterprises. Sources of risk capital are insufficient and chancy. There is room here for the banking community to further enterprise. The National Research Development Corporation (NRDC) could usefully be more imaginative in its terms. Uncertainty prevails over R & D programmes in big business groups because of the industrial policies of the government. Management of large-scale and monopoly units is cautious in committing large resources to R & D as it may not be sure of the extent to which the government will allow the commercial exploitation of results through grant of industrial licences. Hence, the government should review its industrial policies and procedures which would clash with genuine research activities in large firms.

For CSIR laboratories, the principle of relevance needs to be emphasized in future financing of R & D programmes. The R & D organisation should be obliged to obtain part of its fund from the users. If this limited application of self-financing principle is followed in the funding pattern of research laboratories, it would ensure relevance to the research activities.

<sup>3</sup> Quoted in W. Paul Strassmann, *Technological Change & Economic Development*, 1968, Cornell University Press, New York.

The laboratories may then be persuaded to go out and seek customers in the commercial world. As the government is thinking of levying compulsory research cess on industrial units, a similar discipline should be imposed on the laboratories for proper re-orientation of research. Further, it is wasteful to spread research efforts on all fronts in the hope of gaining technological independence in the shortest possible period. Government's research efforts are thinly spread over all possible areas of human endeavour and hence not strongly rooted in industrial needs of immediate relevance. For example, in sophisticated areas of science, such as atomic energy and space, the costly research has generated little 'spin off' because of an absence of an innovation chain and the low stage of industrial development. What the country needs is concentrated research in select areas which in a practical way would tend to boost the production of scarce and depleting materials and mitigate the rising cost of manufacturing.

#### SUMMING UP

In short, through the years, India has built a sound base for technological evolution with a sizable pool of scientific talent. But this base has to be strengthened by the meaningful re-orientation of research and industrial policies. Some measures, suggested above, may bridge the gap between research and industry. In the present circumstances, there are certain built-in forces bringing research close to industrial technology and technology closer to production. The main emphasis has been on production devoid of any technological effort, with the result that there is considerable installed capacity which is obsolete. There has been no development effort on a significant scale to improve machine designs and production processes imported years back. Thus, the technological base of the Indian industry has to be strengthened and that too quickly.

However, technological independence does not mean technological autarchy. Foreign technologies are as important as domestic ones to achieve higher productivity and better standards of living. But the capacity to import is limited and we must proceed selectively in response to most insistent problems and opportunities. Self-reliance calls for progressive decline and ultimate cessation of dependence on borrowed funds for financing imported know-how. It does not mean less and less reliance on foreign technology. This means that indigenous R & D efforts should help reduce the country's dependence on foreign technologies in current areas of manufacturing, and thereby assist the release of foreign exchange resources for borrowing new and advanced technologies. This is how a nation can keep pace with the technological progress elsewhere.

Serious conflicts and dilemmas do arise in seeking harmonious growth

of indigenous and foreign technologies in the different spheres of manufacturing. Certain fundamental issues need to be resolved before embarking on the path of technological progress. A few cases have come to light where the development of indigenous technology has clashed with the import of technology from abroad. Though the Fertilizer Corporation of India (FCI) has not earned for itself a particularly good record in industrial development, it has, nevertheless, contributed significantly to India's drive towards self-reliance in an important area of technology. Now, a part of the initiative in setting up fertilizer plants in the country is being passed on from the FCI to Engineers India which is planning to set up five fertilizer plants on turn-key basis, in collaboration with Toyo Engineering. The entry of Engineers India to supplant FCI in the fertilizer field is justified in view of the crash programme in fertilizer production. Presumably, the assumption is that the turn-key foreign collaboration arrangements should be employed for the speedy implementation of short-term capacity and production targets, while local technology efforts should be encouraged to meet the relatively long-term needs. Another notable example is tractor manufacturing—the CMERI Swaraj Tractor and Czech Zetec tractor. The basic issue involved in the acceptance of either is the same, namely, long-term *versus* short-term gains. HMT at one time had a hard choice to make.

Such confrontations between indigenous and foreign technologies, albeit in limited manufacturing areas at present, raise some fundamental issues of policy. Indigenous technology is admittedly expensive in short-term as it is only available piecemeal and in relatively crude form. The costs are in terms of delays in assembling the various inputs, scientific, engineering and entrepreneurial in technological innovation. The long-term gains would be substantial in terms of acquisition of new skills and improvement of bargaining power, but these are not easily quantified. On the other hand, foreign technology is mostly available on turn-key basis and hence amenable to commercial production immediately. It is the shortest route to achieve the capacity and production targets. But the long-term costs, actual and potential, visible and invisible, are substantial. The problem boils down to balancing the short and long-term costs and benefits arising out of the choice of technology.

The current discussion on technology centres round the theme, 'import or evolve'. One school of thought pleads for a virtual ban on foreign technology. It is argued that our total dependence on borrowed technology has been caused by the easy flow of imported know-how with all its attendant benefits of package deal, yielding quick financial results without financial risk. On the other hand, the development of Indian technology involves the whole chain of technological innovation with high initial costs and greater future risks. Hence a strong import-substitution policy in

technology is advocated to generate pressures for the acceptance of indigenous technology. The other school of thought advocates a cautious approach towards technology imports. While they concede that ultimately Indian technology has progressively to replace foreign technology in vast areas of manufacturing, they are more concerned with the timing of a move to force the pace of local technology. Have Indian technologies reached the state of maturity to accept the challenge of rapid industrialization? The answer is certainly 'no'. Commercial R & D is still in its infancy and it has yet to be merged with the short-term and long-term goals of corporate strategy. There is a period of trial and error before R & D activity comes to be widely practised in the industrial world. According to some experts, it would take a decade or more for the country to acquire some kind of technological maturity. The root cause of failure to innovate on the basis of imported technology is ascribed to the lack of technological maturity. Once the nation acquires this unique faculty, it is claimed, the transition from foreign to indigenous technology would be smooth and orderly.

Both schools of thought represent partially valid points of view on really complex policy matters. It is essentially a matter of demarcating specific areas for both the technologies to flourish. Indigenous technology should be allowed to develop fully without any confrontation with foreign know-how in those areas of production where the country can afford the luxury of time and the comparatively high cost of acquisition and where the design, engineering and machine technology gaps are not too big. Similarly, foreign technology should gain precedence over indigenous know-how in areas of manufacturing where there is an urgency to meet capacity and production targets in the shortest possible time as, say, in fertilizer, steel, etc.

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## CONSULTANCY SERVICES CATALYTIC AGENTS IN THE SYSTEM

*L. C. Jain*

THE last two decades have witnessed a significant growth in Indian industry in all sectors—small, medium and large. Production has increased at a compound annual rate of about 6 per cent, capital by 15.6 per cent and work-force by 1.3 per cent. A notable feature of the growth is the diversity attained by Indian industry as is evident from the marked expansion of the chemical and fertiliser industry, the electrical and non-electrical engineering industries, electronics, the manufacture of heavy machinery and a wide range of industrial machinery and equipment. In its wake, the number of technical personnel possessing diverse skills and practical experience has also increased.

Undoubtedly, India has achieved tremendous industrial competence although it is somewhat concealed by her stagnant *per capita* income. What is more impressive than the past achievement, however, is the potential for future industrial growth. The Fifth Plan envisages a huge investment of Rs. 13,528 crores in the industrial sector, spread over a wide range of industries: steel, fertiliser, coal, oil, engineering, petro-chemicals, non-ferrous metals, paper, cement, textile, ship-building, electronics, etc. It is also noteworthy that the Fifth Plan has placed a much greater accent on self-reliance.

It is in this perspective of the country's industrial aims and achievements that we have to view the role of consultancy services, their growth, problems and prospects.

### ROLE

What is the role of the consultancy services? An apt answer to this question was provided by the late Shri G. L. Mehta while addressing the Seminar on Consultancy Services in India, at Bombay, in November 1972. He said,

“Development is a formidable task, in which the energies of various elements of the nation have to be harnessed. Growth we would have had in the normal course. What we are seeking to do, through

planning and State action, is not only to accelerate the process of growth but also to channelise it in directions to subserve the common good....by diffusing the benefits of growth to the mass of people."

And in the acceleration of the process of growth, the role of the consultancy services, according to him, was that of 'catalytic agents in the system'. As for the specific tasks expected of the profession, he said,

"Consultants play a role at two levels: at one level, they play the traditional role—that of providing independent assessment and advice to clients, of providing services like supervision over, and execution of, their projects. This helps to assess and improve the viability of projects.

"But at another level, consultants, because of their broader expertise and experience, can also help to identify development opportunities and to bring out the issues and policies involved in turning them into viable projects. This is necessarily a difficult job, but is no less essential for being so.

"The consultants have also a role in fostering a technology more suited to our resource-endowment. This latter is particularly an important requirement in India, given the magnitude of unemployment. It is not in an indiscriminate imitation of western technology but in its prudent adaptation and in evolving a technology suited to our needs, that consultants can make a vital contribution."

#### GROWTH

The next question is: given this challenging, creative role, how well have the consultancy services grown or are growing?

First of all, it has to be noted that growth of consultancy services in India is a post-Independence phenomenon. "Consultancy as a profession, like many other things in a newly independent nation, is a young business, it is starting on a career."<sup>1</sup>

There is no comprehensive survey available which could tell us precisely how many consultancy organisations there are in India today, their respective fields of specialisation, their manpower and other resources. Nor is there a qualitative assessment at hand of the maturity of the country's consultancy resources. However, some view can be had of their growth pattern from a sample of 77 consultancy firms studied by ICICI in 1972. We have to draw rather extensively on this study for it is not only the latest but, as far as is known, the only study on the subject.

<sup>1</sup> H. T. Parekh, Chairman, ICICI, *Seminar on Consultancy Services*, 1972.

The survey reports that, functionally, consultancy services available in the country cover a broad field ranging from preparation of market surveys to implementation of turn-key projects. Broadly, the operations of consultancy firms fall into the following areas:

(a) *Area and Preinvestment Studies*

Work related to area surveys involving identification of industrial potential; preparation of project profiles and general feasibility studies;

(b) *Preparation of Detailed Project Reports*

Work encompassing technical, financial, commercial and economic aspects of the project (including plant lay-out and process know-how, general engineering design, specifications, cost estimates and profitability);

(c) *Engineering and Implementation of Projects*

Engineering of the project involving preparation of detailed designs and working drawings, ordering and procurement of equipment; supervision of construction and erection; plant commissioning, supervision during start-up and initial operation; and,

(d) *Advisory Services to the Management*

Management services—advisory and trouble-shooting in technical, financial and commercial aspects of operation.

These activities are inter-linked and taken together may constitute a kind of vertical coverage of all aspects of project work. Along with it, the growth witnessed in the consultancy profession has extended horizontally over diverse and specialised trades and industries such as engineering, metallurgical, chemical and process industries, textiles, rubber, electronics, mining and mineral processing, agro-industries, etc.

Table I presents classification of consultancy firms on the basis of their field of specialisation for the 77 firms in ICICI sample.

An interesting feature of the services provided by consultancy organisations in India is that within the broad subject area—technical, management or economic—most consultancy firms claim to provide a full range of service to their clients. In a developing country with a limited market for



**Table I**  
**Field of Specialisation of Consultancy Firms<sup>2</sup>**

<i>Field</i>	<i>No. of firms</i>
Area, pre-investment survey and project reports	25
Detailed engineering and project implementation	46
Management advisory services	52
Turn-key jobs	32
Individual experts (feasibility reports, advisory services, trouble-shooting and consultancy on retainer basis)	6

consultancy services, this is not surprising since too narrow specialisation within a limited market may lead to underutilisation of scarce technical skills employed in these organisations.

### PROBLEMS

One of the debatable aspects of the pattern of growth is the emergence of a number of 'captive' consultancy organisations set up both by Government and large industrial houses—by the latter mainly after the abolition of the managing agency system. There is a view, however, that captive consultancy is a negation of the very fundamentals of the profession, namely, independence. What good is an advice which is not objective? Even from a pragmatic point of view captive services are likely to lack the 'competitive spur' essential for efficiency and quest for keeping abreast of new developments. In support of the independence of the profession, the Finance Minister, Shri Y. B. Chavan has said:

"There is a considerable scope for genuinely independent consultancy service untied to any particular manufacturing enterprise. The existence of such independent firms will provide an assurance to the potential user of their services that the advice that they are getting from their consultants is not in any way influenced by the need to sell equipment produced by any particular firm with which consultants may be associated. To ensure best results, it is equally essential that consultancy services must maintain high standards of professional efficiency and integrity."<sup>3</sup>

<sup>2</sup> It should be noted that many firms indicated more than one field of specialisation; as a result many firms appear twice or thrice in the above table. As an indication of the coverage of services, it is interesting to observe that as many as 32 of the 77 firms which responded claim to offer turn-key jobs. As against this, it is significant to note that there were only 19 firms which employed more than 50 professional persons. Of these 19 firms, five have appeared on the scene during the past five years and so far have limited experience of such jobs.

<sup>3</sup> Inaugural address to the Seminar on Consultancy Services, Bombay, 1972.

Another important problem relates to the manner of determining the fees of consultancy services. The root of the problem lies in an inadequate appreciation of the fact that there has to be a premium on the quality of consultancy services. In turn, the quality of services of a consultancy firm depends on the competence and experience of its professional staff and the investment it is willing to make on training and continuously updating the knowledge of its staff. It is in this context alone, that the manner of selection of consultants for a job and the settlement of their fees should be considered. The issues are well brought out by ICICI.

“While the profession should receive systematic encouragement, the practice of engaging consultants on the basis of lowest tender would seem to endanger the professional spirit of such services. International practices elsewhere lay down procedures for engaging the services of consultants and fixing compensation for their work according to codes of conduct enjoined on them; consultants themselves are forbidden from submitting priced proposals under conditions that constitute price competition of professional services. Similarly, international agencies, like the World Bank, engage consultants on the basis of their known reputation and capacity rather than on the basis of competitive bids. Qualifications, experience, and professional competence have been the prime criteria for appointment of consultants for international jobs.”<sup>4</sup>

There is also a growing tendency in New Delhi to treat non-government consultancy agencies on a par with the private sector industry. Consulting organisations which ought to be regarded as part of the technical sector of the economy, are being labelled as belonging to either the ‘private’ or ‘public’ sector. The point to note is that a consulting organisation being a technical resource group has as its chief asset, not the capital at its command but the concentration of skills—a concentration which ought to be encouraged by public policy.

One of the questions commonly faced by new consultancy groups (including those set up by government itself) is whether they should be entrusted with any jobs, unless they have experience. There is insufficient recognition that while consulting organisations in the country are young as corporate bodies, it is the depth of experience and expertise of their key personnel that matters. This attitude may also explain why consulting organisations are not being fully utilised to assist the public sector improve its performance. Since the Fifth Plan is expected to make further massive investment in the public sector, the Planning Commission would do well

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<sup>4</sup> A Background Paper, prepared by ICICI for the *Seminar on Consultancy Services*, 1972.

to associate consulting organisations not only in the preparation of feasibility studies but also in project implementation. This ought to be done for at least those projects which are regarded as critical, *i.e.*, where delay and consequent imbalances might have serious repercussions on the smooth progress of the Plan.

### PROSPECTS

With the growing emphasis on self-reliance in the economy it is obvious that, both in respect of the existing as well as new industries, there will be a greater demand for services in the field of designing, fabrication and supervision of implementation which previously were left mainly to be provided for by the foreign collaborators. The problem is, therefore, not just one of using the existing consulting resources only but also that of creating conditions for their further rapid growth and diversification.

The most crucial requirement for expansion of consultancy services is to increase the stock of talent available to the profession. Good consultancy is a judicious blend of both expertise and experience. While the first can be acquired through study and learning, the latter can be gained only through hard practical work. Some attention is being paid to acquire expertise including inducements to Indian technicians and scientists living abroad to return home. But little thought has been given so far to making full use of our reserves of experience.

The available skills in the economy are of two kinds—creative skills and maintenance skills. The former should not be tied up with managing the day-to-day affairs of a going concern and should be utilised for creative purposes, that is, building new enterprises. This could be done through the medium of consultancy organisations which could use the services of such creative individuals for short periods, with the permission of their employers. There is also the need for greater mobilisation of skills, especially from universities and research institutions on a similar basis.

There could also be a national register of technicians in different branches of industry who retire annually and who, though not seeking active re-employment, may be willing to lend their talent for short periods to advise on specific problems. They obviously fall outside the pale of the Employment Exchanges but surely a special National Register with comprehensive indexing could be set up by the Planning Commission or the Council of Scientific and Industrial Research to enrol them. Such ready availability of names of experienced personnel would be of immense help to many entrepreneurs in the country, especially those setting up small-scale enterprises. Even large industries as well as consulting organisations could periodically use their services.

To conclude, it must be confessed that while consultancy profession has rendered useful services to the economy it is as yet miles behind providing the spark expected to catalytic agents. But it is hoped that, ere long, the profession will be able to overcome its internal and external problems, expand substantially in size and stature and live up to its assigned role in the economy.

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## FINANCE FOR INDUSTRY

*B. G. Hebbalkar*

**I**NDUSTRIAL finance is required to keep moving the wheels of industrial progress. Industry needs finance for financing its fixed or permanent capital with which it can acquire fixed productive assets (such as property, plant and machinery), for working capital with which it can meet the expenses of current assets (such as raw materials, cash, debtors, etc.) and for meeting day-to-day administrative expenses including wages and salaries of employees. While finance required for fixed assets is locked up for a longer time, equivalent to the life of the asset within which time the investment is to be recovered, the finance for a current asset is required for a shorter time, depending on business practices, the terms of credit, turn-over of sales, etc. The proportion of fixed capital and the working capital to the total widely varies from industry to industry depending on its nature and capital intensity. Industries like steel, heavy engineering and heavy chemical industries and such other industries which were established in the post-Independence era are capital-intensive industries with a high ratio of fixed capital to working capital. In other industries such as consumer goods and light engineering (such as textiles, cotton & Jute, vegetable oil, etc.) and seasonal industries (like sugar), the ratio of working capital to fixed capital is comparatively higher.

In other words, industry requires (i) long-term finance, (ii) medium-term finance, and (iii) short-term finance depending upon the period for which the finance is required. The long-term or medium-term finance, therefore, will have to be obtained either from the resources of the promoters (or equity capital) or long-term borrowings; and the short-term finance by short-term loans. While resorting to the permutations and combinations of raising the different types of finance, considerations such as the stability of profits earned, the terms of finance raised, etc., will have to be weighed with great caution to avoid running the risk of foreclosure and bankruptcy of business.

### SOURCES OF FINANCE

The main sources of finance include: (i) equity shares (ordinary or preference) or creditor securities (debentures, redeemable preference shares),

(ii) retained earnings or plough back-profits in the form of depreciation reserves, development reserves, special resources, etc.; (iii) commercial banks; (iv) financial institutions specialised in medium/long-term finance; (v) investing public; (vi) international financial institutions such as IBRD, IFC, IDA, CDFC, EXIM Bank of USA and Japan, etc.; (vii) foreign capital; (viii) insurance corporations; and (ix) other institutional investors like the investment trusts. Traditionally, the commercial banks mainly supply short-term finance, though under economic compulsions they are venturing for a part of their operations into medium-term and long-term finance. The financial institutions and other institutional investors are resorted to for medium- or long-term finance.

What should be the proportion of the various sources of finance? This will depend on various factors such as the type of business organisation (proprietorship, partnership, private limited company or public limited company or statutory corporation, each regulated by different legislation), nature of the industry, the size of business unit, availability of finance from different sources, the risks run in business and the cost of raising the capital. The investment climate, the conditions in the money/capital market also influence the choice of sources.

Reserve Bank of India annually makes survey of joint stock companies analysing the sources of funds utilised by the companies. According to these surveys companies have relied substantially on retained earnings, increasing use of depreciation reserves, and there has been recourse to equity capital as well as long-term borrowings.

#### INDUSTRIAL FINANCE IN INDIA

Rapid economic progress raises the problem of industrial finance and widens the gap between its demand and supply. The Indian industry faced this problem particularly since 1960, when the money market and capital market<sup>1</sup> remained sluggish. In order to tide over the basic problems of finance, Government has made constant endeavours through various measures to reorganise and renovate the capital market and money market,

<sup>1</sup> *Capital market* is concerned with long-term finance. In the widest sense it consists of a series of channels through which the savings of the community are made available for industrial and commercial enterprises and public authorities. The savings institutions like the savings banks, investment trusts or investment companies, specialized financial institutions and stock exchanges are some of the important constituents of capital market. *Money market*, in a narrow sense is concerned with floating of liquid balances and their short-term employment in trade and industry through the banking system. In a broader sense, money market is also concerned with the process through which long-term capital is formed.

through strengthening and creating an institutional framework, so as to make them powerful engines to mobilise the savings of the community and channelise them into industry according to planned priorities.

In the following paras an attempt is made to give a broad idea of the factual position as regards financing of industries in India mainly by commercial banks (including the nationalised banks) and the specialised financial institutions. Some of the aspects of financing small-scale industries and industries in the backward areas are also dealt with.

### COMMERCIAL BANKS

Since inception Indian commercial banks have been meeting, from one per cent to more than 20 per cent of the total capital employed by various industries.<sup>2</sup> Short-term loans and advances are extended either on pledge system or hypothecation system with a margin of 20 to 30 per cent. With the establishment of Refinance Corporation of India in 1958 and solution of the liquidity problem of banks, they also provide medium-term credit (for 3 to 7 years and in some cases up to 10 years) to economically viable units. Banks have also begun to venture in the fields of underwriting, subscription to shares and debentures of industrial concerns and 'rolling over' of short-term credit.

Rapid progress has been made by commercial banks in India since 1951. Tables 1 and 2 give a broad view of the developments in banking since 1951.

Bank finance to commerce decreased from 53 per cent in 1951 to nearly 17 per cent in recent years. The finance to industry has increased from 33 per cent in 1951 to over 60 per cent and assistance to neglected sectors has increased from 14 per cent in 1969 to 25 per cent in 1970. The commercial banks financed nearly 27 per cent of the gross fixed investment in the private sector in 1970-71. In absolute terms, the outstanding balance of advances extended to nearly 142,000 small industrial units by scheduled commercial banks (including the nationalised banks' share of Rs. 345 crores) was Rs. 645 crores. The outstanding balance of term loans to 30,000 units was Rs. 95 crores as on December 1972.

### *Performance of Public Sector Banks<sup>3</sup>*

With a view to make the commercial banking system a meaningful instrument of socio-economic policy and to foster growth of new and

<sup>2</sup> Finance for Industry (Revised), Administrative Staff College of India, Hyderabad.

<sup>3</sup> RBI Bulletin, August 1973.



**Table 1**  
**Progress of Commercial Banking**

	<i>End 1951</i>	<i>End 1961</i>	<i>June 1969</i>	<i>December 1972</i>
1	2	3	4	5
1. Number of commercial banks	566	292	89	83
2. Number of offices in India	4151	5012	8262	14739
3. Population per office (in thousands)	87	38	65	37
4. Deposits of Scheduled Commercial Banks in India (Rs. crores)	909	2012	4646	8146
of which—				
(a) Demand	NA	NA	2104	3458
(b) Time	NA	NA	2542	4688
5. Credit of Scheduled Commercial Banks in India (Rs. crores)	627	1293	3599	5398
6. Deposits of Scheduled Commercial Banks per office (Rs. lakhs)	NA	NA	58	56
7. Credit of Scheduled Commercial Banks per office (Rs. lakhs)	NA	NA	45	37
8. Per capita Deposits of Scheduled Commercial Banks (Rs.)	25	46	88	143
9. Per capita Credit of Scheduled Commercial Banks (Rs.)	17	28	68	95
10. Deposits as percentage of National Income (at current prices)	9	14	15.3	19.9
11. Public Sector Banks' Advances to Priority Sectors (Rs. crores)	—	—	439	1080
12. Share of Priority Sectors in total credit of public sector banks (per cent)	—	—	14.9	25.1
13. Credit-Deposit-Ratio	69	64	77.5	66.3
14. Investment-Deposit Ratio	NA	NA	29.3	35.1
15. Net Liquidity Ratio	NA	NA	31.1	34.5
16. Cash-Deposit Ratio	11	8	8.2	6.6

Table 2

## Advances of Scheduled Commercial Banks According to Purpose

(Rs. Crores)

End of	Industry		Commerce and Financial		Agricultural		All others		Total	
	Amount	p.c. of total	Amount	p.c. of total	Amount	p.c. of total	Amount	p.c. of total	Amount	p.c. of total
March 1951	196	33.5	310	53.1	12	2.1	67	11.3	585	100.0
March 1956	278	36.2	388	50.3	16	2.0	88	11.5	770	100.0
April 1961	688	52.8	476	36.4	5	0.4	137	10.4	1306	100.0
March 1966	1510	64.3	650	27.7	5	0.2	182	7.8	2347	100.0

progressive entrepreneurs, the Government nationalised 14 major banks in July 1969. One must admit that the public sector banks have succeeded in mobilising the savings of the community and channelising them equitably into productive spheres in conformity with policy objectives and priorities. In the last four years (1969—June 1973), a striking progress has been made by the nationalised banks as shown in Table 3.

**Table 3**  
**Progress of Banks**

	<i>All Commercial Banks</i>		<i>Public Sector Banks</i>	
	<i>June 1969</i>	<i>June 1973</i>	<i>June 1969</i>	<i>June 1973</i>
No. of offices	8262	15362	6595	12539
Deposits (Rs. crores)	4646	9018	3872	7570
Advances (Rs. crores)	3599	6299	3017	5334
Investments (Rs. crores)	1359	2948	1161	2521

A noteworthy feature of the branch expansion activity of the public sector banks is their attention to the development of the backward areas, through the lead banks surveys. Apart from branch expansion the public sector banks have played an encouraging role in the provision of adequate credit for agriculture and development of small-scale industries. This is evident from Table 4.

**Table 4**  
**Advances to Priority and Neglected Sectors**

(Rs. Crores)

	<i>Outstanding Amount</i>	
	<i>June 1969</i>	<i>December 1972</i>
Agriculture	162.3 (164,481)	429.6 (1245,045)
Small Scale Industries	251.0 (50,850)	570.2 (179,190)
Road/Water Transport operators	5.5 (2,324)	55.5 (35,574)
Retail trade/small business	19.4 (33,241)	87.1 (187,057)
Professional/self-employed persons	1.9 (7,769)	15.3 (73,621)
Education	0.8 (1,477)	3.0 (8,472)
<b>Total</b>	441.0 (260,142)	1160.7 (1728,959)
Food-procurement	233.0	470.0
Export	192.0	356.0

(Figures in the brackets indicate the number of accounts).

Alongside extension of liberal credit facilities to priority sectors, the public sector banks have been meeting the genuine credit requirements of production in the large and medium industry sectors to an increasing extent.

A constant criticism of commercial banks has been that, by and large, they operate only in the urban centres and that the enormous rural hinterland including the smaller towns, has been left completely uncovered... Another criticism of the banking structure in the past was that, by and large, it catered only to the comparatively well-do-do sections of the community and that the poorer sections were completely ignored. In the field of industry, for instance, only the large-scale industry was catered for and the small-scale industrialists necessarily had to resort only to unorganised markets where rates of interest were high<sup>4</sup>. Coming to recent times, the salient features of commercial banking in India have been brought out in a meaningful way in an article<sup>5</sup> based on a RBI study. One of the important features of commercial banking is that bank offices are too small in terms of their size and operations by international standards. Over 85 per cent of the offices covered by the study have deposits of Rs. 1 crore and less, while their share in total quantum of deposits is only about one-third. As much as 95 per cent of the offices having advances of Rs. 1 crores or less account for only 25 per cent of total advances. This will naturally have adverse implications for the aggregate loss and profitability of the banking system both at the micro and macro levels. The RBI study also reveals another remarkable feature of bank offices where the deposits exceed advances. About two-thirds of the offices have only 35 per cent of their deposits as advances. The lopsided growth of Indian commercial banking is also reflected in the fact that banking facilities are largely concentrated in a few developed States. The RBI study points out that over 50 per cent of aggregate deposits are accounted for by no more than 12 centres and 66 per cent of the total advances are absorbed by 13 centres. The facts suggest that more has to be done to remove the lopsidedness in the development of banking in the country. The Lead Bank Scheme would have to be pursued vigorously. But then, it is necessarily to realise that the geographical lopsidedness which has persisted over a long historical period will take time for rectification. The Banking Commission Report of 1972 has made a number of recommendations suggesting measures to restructure and strengthen the Indian banking system.

#### SPECIALISED FINANCIAL INSTITUTIONS

After World War II, the individual entrepreneurial capital faded away and the need arose for specialised institutions to sponsor new industries requiring large investments and to provide long-term capital needed

<sup>4</sup> HVR Iyengar, *Business and Planned Economy* (1968), p. 76.

<sup>5</sup> "Meenakshi Tyagarajan and C. S. Ramachandran, "Some aspects of Commercial Banking in India—an analysis of the first venture under the BSR System," *RBI Bulletin*, January 1974.

by existing industries for expansion and modernisation. The commercial banking system in India failed to participate satisfactorily in the provisions of long-term industrial finance. The Shroff Committee<sup>6</sup> had recommended bank participation in forming a consortium or syndicate for underwriting or investing in new issues of industrial shares and debentures. Since the recommendations of the Shroff Committee were not met, the establishment of specialised institutions or development banks became necessary. Accordingly, there has been built-up in the country after Independence a network of specialised term-lending institutions wide enough to cover all parts of the country and to cater to the differing needs of industrial units of various types and sizes. The main objective of these institutions is to fill the gap in the capital market and help in the promotion of industries by supplying equity capital, long-term loans, underwriting and guaranteeing of issues and promoting industries by themselves. There are several such institutions amongst which the chief are:

#### *At the All-India Level*

##### *1. Industrial Development Bank of India (IDBI)*

Set up in July 1964 for providing credit and other facilities for development of industries. Besides providing direct financial assistance, IDBI offers re-finance facilities and guarantees activities of other financial institutions. It is designed as a developmental agency for planning, promoting and developing industries to fill up gaps in industrial structure of India.

##### *2. Industrial Finance Corporation of India (IFCI)*

Set up in 1948 with the main objective of providing medium and long-term loans to industrial establishment, particularly in circumstances where normal banking accommodation is inadequate or recourse to 'capital issue' in the market is impracticable.

##### *3. Industrial Credit and Investment Corporation of India (ICICI)*

Set up in 1955 with Indian and foreign capital with a view to provide equity and loan capital to industries, underwrite shares and guarantee loans. The Corporation also provides technical know-how and managerial skill to units in the private sector.

##### *4. The National Industrial Development Corporation Ltd. (NIDC)*

Established in 1954 with a view to secure balanced and integrated development of industries both in the private and public sectors.

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<sup>6</sup> RBI Report of the Committee on Finance for Private Sector, 1954.

It can provide assistance in any form, such as capital, loans, machinery, technical know-how, consultancy, etc.

(5) *The National Small Industries Corporation (NSIC)*

Established in 1955. Its object is to help small industries by way of finance, supply of materials, training facilities and marketing facilities.

(6) *Industrial Reconstruction Corporation of India (IRCI)*

Established in 1971 to meet the problem of rehabilitation of sick industrial units, particularly in the eastern region.

*At the State Level*

(7) *State Financial Corporations (SFCs)*

Formed by various States under the State Finance Corporation Act 1951, to finance large-scale medium and small-scale industries and cooperatives. The Corporations grant loans, guarantee loans borrowed from other financial institutions for 20 to 25 years up to Rs. 20 lakhs, underwrite securities and act as agents of Central and State Governments and IFCI.

(8) *State Industrial Development Corporations (SIDCs) State Industrial and Investment Corporation (SIIDs)*

Established by various States (the model being the Gujarat State in this context) in order to accelerate their tempo of industrial growth. In addition to granting loans, issuing guarantees, underwriting shares, some of the corporations develop and manage their own industrial estates.

*Institutional Investors*

Besides the specialised financial and industrial development institutions, other institutions in the field are:

(1) *Unit Trust of India (UTI)*

Established in 1964 as an important constituent of capital market and effective medium for mobilising savings and canalising them into corporate sector. The basic objective of UTI is to provide a medium whereby savers from the relatively small and medium income groups can obtain benefits of equity investment.<sup>7</sup>

<sup>7</sup> R. S. Bhatt, "UTI—Role in Sustaining Capital Market" (*Capital*, Annual Number, 1971).

(2) *Life Insurance Corporation (LIC)*

Formed in 1956. It provides industrial finance in two ways (1) by investing in shares and debentures, and (2) by underwriting capital issues.

Besides LIC, UTI, other institutional investors include the recently nationalised General Insurance Companies and Investment Trust.

*Role of Specialised Institutions—Present and Future*

The role played by the specialised institutions in providing finance in recent years has shown a rising trend. Paucity of investible funds was made good to a great extent by institutional finance which is becoming increasingly important as a source of medium- and long-term finance for industries in the private sector, in terms of both volume of funds and variety of industries to which assistance is given. The financial assistance provided by the special financial institutions during the Second Plan (1956-61) was Rs. 121 crores. The total assistance to industry in the Third Five-Year Plan was as much as Rs. 480 crores—(Rs. 560 crores including assistance from UTI and LIC). The assistance in recent years is shown in Tables 5 and 6.

**Table 5**  
**Financial Assistance by IDBI, ICICI, IFCI, IRCI, SFCs and SIDCs**

Year (April-March)	(Rupees Crores)			
	Sanctions		Disbursements	
	Direct Loans	Total Assistance	Direct Loans	Total Assistance
1965-66	—	169.3	—	105.8
1966-67	—	122.0 (-27.8)	—	125.6 (+18.7)
1967-68	—	87.1 (-28.6)	—	105.0 (-16.4)
1968-69	109.2	132.3 (+51.9)	75.3	85.8 (-18.3)
1969-70	122.2 (+11.9)	153.8 (+16.3)	100.5 (+33.5)	116.3 (+35.5)
1970-71	186.6 (+52.7)	225.7 (+46.7)	121.9 (+21.3)	146.7 (+26.1)
1971-72	262.3 (+40.5)	304.6 (+35.0)	154.8 (+27.0)	184.5 (+25.8)
1972-73	264.4 (+0.8)	309.3 (+1.5)	176.5 (+14.0)	200.6 (+8.7)

NOTE: Figures in the brackets are percentage variations over the previous years.

SOURCE: RBI Report on Currency and Finance, 1972-73.



**Table 6**  
**Assistance Sanctioned and Disbursed by Term-lending**  
**Institutions (1970-73)**

(Rs. Crores)

	Sanctions			Disbursements		
	1970-71	1971-72	1972-73	1970-71	1971-72	1972-73
IDBI	80.6	141.9	94.0	55.8	78.8	66.7
IFCI	32.3	28.7	47.5	17.4	20.3	28.3
ICICI	43.9	39.7	49.5	28.9	30.3	39.7
IRCI	—	6.6	6.1	—	1.1	3.5
SFCs	49.6	64.1	78.7	33.5	39.6	44.7
SIDCs	19.3	23.6	33.5	11.1	14.4	17.7
Total	225.7	304.6	309.3	146.7	184.5	200.6
UTI	10.7	15.0	10.2	5.1	1.6	5.6
LIC	17.8	23.1	18.0	8.1	5.3	11.0

SOURCE: RBI Reports on Currency and Finance, 1971-72 and 1972-73.

### *Performance of IDBI and ICICI & SFCs*

Since July 1964 to June 1973, the total net-effective assistance given by IDBI to 8000 industrial projects and for exports was Rs. 775 crore (Direct loans Rs. 243 crores, underwriting, etc., Rs. 48.8 crores, Refinance to SFCs Rs. 180.9 crores, rediscounting of bills Rs. 185 crores, subscription to shares and bonds of financial institutions Rs. 38.9 crores and export assistance Rs. 78.5 crores). The assistance utilised which crossed the Rs. 100 crore mark in 1972-73 totalled Rs. 565 crores during 1964-73. The assistance rendered was in respect of a wide range of important industries for setting up new capacities including diversification schemes in certain cases. With a view to accelerating the pace of industrialisation of the specified backward areas of the country, IDBI has been successfully operating schemes of concessional finance. It is significant that IDBI has been conducting intensive promotional activities in last three years in cooperation with other term-lending institutions. One such promotional activity has been to undertake surveys of industrial potentials of all States, identify projects, conduct feasibility studies and provide finance to the entrepreneurs in setting up the projects. As stated in its 9th Annual Report, the percentage of value added by the companies directly financed by IDBI, to the net value added by private corporate sector was 11.4 in 1972 (Rs. 350 crores).

With the restructuring of the capital of IDBI and giving it a status of a holding company as a result of the passing of the Public Financial Institutions (Amendments) Bill, introduced in the Lok Sabha towards the end of 1973, IDBI has acquired the status of an independent financial institution. IDBI as an apex financial institution will coordinate the functions of the institutions of the member institutions at the All-India and State levels. The new structure and functions of IDBI should help in the better handling of the term-lending in equity participation by the principal financial institutions in the country. However, in some quarters it is argued that the IDBI had done well as a development bank with its status as subsidiary of the Reserve Bank of India and it was indeed not necessary to change the status. IDBI's mere reconstitution as a holding company would not enable the Government to play the intended direct role in the development activities in the country, particularly in the backward areas.

A reference may be made to the Committee<sup>8</sup> on the Development of Small and Medium Entrepreneurs, which submitted its Report to the Government in October 1973. One of its recommendations is that IDBI should extend refinance facilities to more than one State agency in each State. Government's view is that subject to availability of resources IDBI is considering the possibility of extending refinance facilities to some more institutions at the State level provided these institutions are financial in character and they do not undertake in any significant manner, other types of promotional activities like setting up of new enterprises, supervision of the infrastructure, etc.

With the amendments in respect of scope of the definition of industrial concerns and export assistance to the Industrial Development Bank of India Act, 1964, the scope of the activities of IDBI has greatly increased.

Also the Public Financial Institutions (Amendment) Bill has been introduced in the Lok Sabha towards the end of 1973 and this bill is now before the Select Committee of the Parliament. When this Bill will be passed, IDBI will acquire a new pattern of capital structure in the form of a holding company as against its present status as subsidiary of the Reserve Bank of India. IDBI as an apex financial institution will coordinate the functions of the institutions of the member institutions at the All-India and State levels. The new structure and functions of IDBI are intended for better handling of the term-lending and equity participation operations by the principal.

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<sup>8</sup> Committee on the Development of Small and Medium Entrepreneurs (Chairman, Shri R. S. Bhatt).

## ICICI

Since 1955 up to December 1973, ICICI's cumulative gross financial assistance sanctioned to 856 enterprises (including 285 new undertakings) amounted Rs. 535.5 crores out of which Rs. 308.8 crores were disbursed. The Corporation continues to take interest in the development of backward areas and small-scale industries. An industry-wise analysis of ICICI's assistance reveals that 21.2 per cent of its assistance went to chemical and petro-chemical industries, followed by metals and metal products with 18.4 per cent. Textiles accounted for 8.5 per cent of the total assistance, the share of others being 7 per cent, 5.7 per cent, 4.4 per cent, and 3.9 per cent, respectively in case of electrical equipment; pulp, paper and paper products; glass, pottery; and rubber products. There has been considerable augmentation of the resources of the Corporation and for the first time it floated in 1973 a bond issue in European Capital Market and raised 8 million Swiss Franks (about Rs. 1.5 crore). As on December 31, 1973, the net resources of ICICI were about Rs. 365 crores, comprising Rs. 93 million in domestic currency and the balance in foreign currencies.

## SFCs

Up to March 1973, 18 SFCs sanctioned a total amount of Rs. 368 crores, out of which nearly 50 per cent went to the small-scale sector. Though the operations of SFCs have expanded substantially over the last decade much remains to be done. While the total sanctions of SFCs work out at Rs. 24 per capita in Haryana, it is only Rs. 2.70 for Bihar, Rs. 4.40 for Madhya Pradesh and Rs. 3.80 for Orissa. A major problem of SFCs has been a high default ratio. As a percentage of the total loans accumulated, arrears work out to be about 14 per cent. The SFCs Act was amended in December 1972 and when the impact of this is felt fully, SFCs would be able to put more units in operation and expedite the execution of projects.

## *Evaluation of the Work of Specialised Institutions*

For a proper evaluation of the specialised financial institutions in India, it will be necessary to spell out the lending policies of the institutions in the context of the country's industrial policy and plan priorities, and to set forth financial and non-financial contributions of these institutions in the last two decades of economic planning. What has been the contribution of the specialised financial institutions to capital formation? Have they been able to reduce the regional economic imbalances? What is their contribution to the growth rate of value added to the country's GNP? Obviously to answer these questions is beyond the scope of this article. Based on existing studies on the subject, however, it can be stated that by the close of the Third Plan, the specialised financial institutions were contributing nearly

one-third of gross capital formation in the entire private corporate sector<sup>9</sup> as compared to hardly one per cent in 1951-52.

In a backward country with the planned process of development, specialised financial institutions have to play a more positive role for accelerating the growth rate of industrial investment and output. They will have to play a more dynamic role with regard to identification of new industries, their selection in the light of plan priorities and assisting in the efficient management of industrial enterprises in such a way, as to reduce their cost structure and improve their productive efficiency. The important problem which specialised financial institutions have to tackle is to mobilise domestic savings, help generate more savings and deploy them according to Plan priorities. The future role has to be shaped in the background of social and economic changes which are fast taking place in the country.

#### FINANCING SMALL INDUSTRIES

Compared with large- and medium-scale industries, the small industries normally find it difficult to raise funds which they require. This is mainly because of their size, lack of reputation and the view of lending institutions that extension of loans to small industries involves risk. Also financial assistance provided by banks/institutions to small-scale sector is inadequate and often with stringent conditions. In view of the special problems involved, special schemes have been introduced by Reserve Bank of India and State Bank of India (SBI) to finance small industries at cheaper cost. Two special financial institutions, *i.e.*, the National Small Scale Industries Corporation and Small-Scale Industries Corporation in different States have also been set up to assist the small industries.

Amongst the important schemes formulated with a view to finance small industries are:

- (i) State aid to industries under the State Aid to Industries Act/Rules.
- (ii) 'Pilot Scheme' of SBI to provide working capital to small industries on liberalised terms, the Entrepreneur Scheme of 1967 and Rural Industrialisation Scheme. The SBI pilot scheme meets the need-based credit requirements by providing comprehensive facilities including clean loans to meet shortfall in margins. By December 1972, Rs. 390 crores were given by the Bank to

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<sup>9</sup> Prabhu N. Singh, *Role of Development Banks in a Planned Economy*, Vikas Publishing House, Delhi, 1974. p. 131.

63,000 units. Under the Entrepreneur Scheme, assistance is given to technician entrepreneurs who are unable to bring in 'owners' equity.

- (iii) Credit Guarantee Scheme of RBI; and
- (iv) Assistance by Financial Institutions.

#### FINANCING INDUSTRIES IN BACKWARD AREAS

With the growing interest in regional development special incentives and facilities are provided by the Central Government and national Financial Institutions. IDBI, IFCI and ICICI have announced concessional schemes of financial assistance for industrial projects in backward areas. Concessions with the same intent have been announced by IRCI and NSIC. Under the concessional schemes lower interest is charged and assistance is given for a larger amortisation period of 10 to 20 years, margin on security is reduced and there is participation in risk capital.

A broad review made in the previous sections of the organisation of industrial finance and role played by the various agencies supplying the different types of finance to industry would reveal that considerable progress has been achieved in the field since Independence. The difficulties encountered by the industry owing to sluggishness in the capital market in the 1960's was overcome through creation of a framework of specialised financial institutions and the commercial banks playing a greater role in supplying even medium term finance as a part of their operations. The nationalisation of 14 scheduled commercial banks have played their part in supplying the financial needs of the neglected sector of industry. However, a number of problems are being faced in order to meet the equity and loan finance of the industry promptly and fully, in the wake of increased industrial activities. India has launched her 5th Five-Year Plan and although the economy is temporarily suffering from the shortages of certain basic industrial inputs, the country is bound to make further industrial progress in the near future. This will again create a situation in which the supply of finance is bound to exceed the demand for it. It will, therefore, be necessary to have a constant watch on the developments of money and capital markets and their constituents and reorient their activities in such a way that they are able to meet the challenge.

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## INDUSTRIAL RELATIONS POLICY THROUGH THE FIVE-YEAR PLANS

*R. C. Goyal*

SINCE Independence, the National Governments' Industrial and Labour relations policies have been outlined in successive five-year plans of economic development. The Government started with the laudable objective of giving a fair deal to industrial labour, as it considered them to be one of the weaker and oppressed sections of society. Consequently, there has been emphasis on enacting legislation and enunciating policies which would tilt the balance of power in favour of the working class. In order to assess the impact of the industrial relations policy, it will be necessary to have a bird's eye view of the statements contained in the five-year plans, and the results obtained.

Though the British Government was guided by its own economic motives, they must be given credit for designing a basic framework for a five-year plan for labour welfare, which was possibly motivated by the Welfare State concept prevalent in the United Kingdom in 1940's. Most of the welfare legislation subsequently passed was based on the foundations laid down by them. The first major statement of industrial relations policies of the National Government appeared in the First Five-Year Plan. "It is incumbent on the state to arm itself with legal powers to refer disputes for settlement by arbitration or adjudication . . .

"However, the endeavour of the state has all along been to encourage mutual settlement, collective bargaining and voluntary arbitration to the utmost extent, and thereby reduce to the minimum, occasions for its intervention . . .

"A legal framework may be created to determine the appropriate bargaining agency and to fix the responsibility for the enforcement of collective agreements. For the success of collective bargaining it is essential that there should be a single bargaining agent over as large an area of industry as possible."<sup>1</sup>

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<sup>1</sup> The First Five-Year Plan—A Draft Outline, Planning Commission, Government of India, New Delhi.

The second Five Year Plan contained policy statements on similar lines. The Third Five-Year Plan included the following categorical statements:

"The development of industrial relations in the Third Five-Year Plan rests on the foundations created by the working of the Code of Discipline which has stood the strain of the test during the last three years."

"The law provides for the establishment of Works Committee at the plant level in order to develop harmonious relations between employers and workers."

"A major programme for the period of the Third Five-Year Plan will be the progressive extension of the scheme of Joint Management Councils to new industries and units so that, in the course of few years, it may become a normal feature of the industrial system."<sup>2</sup>

The Fourth Five-Year Plan did not mention anything new. It laid more emphasis on voluntary collective bargaining as against compulsory adjudication. The draft Fifth Five-Year Plan for the first time mentions:

"Inadequacies of management and bad industrial relations are among the most important factors for delay and inefficiency in implementation of projects and underutilization of capacity."<sup>3</sup>

It is apparent that the First Plan laid more emphasis on the creation of a legal framework for regulation of industrial relations and arming the State with legal powers, and the Second Plan endorsed it, though it was also mentioned that the endeavour of the State should be to encourage collective bargaining. A large number of labour laws were passed during the two Plans. However, since the legal framework did not produce the desired results, the emphasis in the Third Plan was shifted to 'Code of Discipline' and 'Joint Management Councils'.

After the Third and Fourth Plan period, in the Fifth Plan, now there is a realization that *bad industrial relations* have been one of the most important factors responsible for delay and inefficiency in implementation of projects.

The objectives of the policy enunciated in the Five-Year Plans, can be briefly summarized in the following broad groups: (a) Developing a strong

<sup>2</sup> The Third Five-Year Plan, Planning Commission, Government of India, New Delhi.

<sup>3</sup> The Draft Fifth Five-Year Plan, Planning Commission, Government of India, New Delhi.



trade union movement; (b) Laying greater emphasis on voluntary collective bargaining, after determination of a single bargaining agent, in place of compulsory adjudication; (c) Encouraging use of voluntary 'code of discipline', 'work's committees' and 'Joint-management councils', to play a predominant role in industrial relations, in spite of the statutory provisions contained in Industrial and Labour Laws; (d) Ensuring industrial peace; and (e) Increasing productivity. We may try to examine how far these objectives enunciated in the Five-Year Plans have been realized.

The Trade Union Movement in India has become more and more fragmented in the last two decades. While there was only one All India Trade Union Congress before the country obtained Independence in 1947, within a few years of the National Government coming into power, four All-India Trade Union Federations were sponsored by major political parties. In the last decade, the number of these All-India Federations or Central Trade Union Organizations has increased to eight. They have claimed representation on the All-India Labour Conference and the Ministry of Labour decided to undertake fresh general verification in respect of eight All-India organisations on the basis of claims made as on 31st December, 1972.<sup>4</sup>

What is more remarkable is that the number of trade unions on the registers has gone up pretty fast in the last decade. But the number of unions submitting returns seems to have declined very much in 1970, and so has the membership as shown in Table I.

**Table I**  
**Growth of Trade Unions and Membership, 1961-62 to 1970**

Year	Workers' Union		
	On Register	Submitting Returns	Membership ('000)
1961-62	11,416	6,954	3,960
1962-63	11,620	7,114	3,667
1963-64	11,740	7,106	3,956
1964-65	12,744	7,380	4,441
1965 (Apr.-Dec.)	12,948	6,771	3,763
1966	14,370	7,086	4,369
1967	15,024	7,381	4,503
1968	16,409	8,689	5,094
1970	18,093	2,577	1,681

SOURCE: Indian Labour Statistics, 1973, published by Labour Bureau, Simla, p. 105.

<sup>4</sup> Report for 1972-73, Ministry of Labour and Rehabilitation, Government of India, New Delhi, p. 2.

Moreover, a study of the unions by membership shows that a large number of them have a membership below 500. They accounted for over 80 per cent of the total number of unions in 1971-72. It is also noticeable that there has been fragmentation and sub-division of the membership into several rival unions. It is unfortunate that the statutory provision in the Trade Unions Act, which makes it possible for any 7 members to register a trade union, has been largely responsible for such mushroom growth of trade unions.

Significant changes in the composition and structure of trade unions have also occurred in the last decade. There has not only been inter-union rivalry among the unions subscribing to ideologies of different political parties, but also a considerable degree of intra-union rivalry with the same union, as a result of the dissensions among the political groups at the top. Such rivalries and consequent competing demands and disputes have made the trade unions and their tactics a nightmare for all employers in government and industry.

This trend has been accentuated in recent years by the worsening economic situation, and the political polarization of the Indian Trade Union Movement, which has more than doubled the number of All-India Trade Union federations. The inevitable result has been a large number of competing rival unions and also many groups in the same unions making more and more demands and filing more industrial disputes.

From the inception of the First Five-Year Plan, emphasis has been laid on voluntary collective bargaining. However, in view of the easy and expedient provision facilitating compulsory adjudication in the Industrial Disputes Act, and various awards and judgements given by Labour Courts, Tribunals, and other higher Courts in favour of trade unions and workers, the much advocated voluntary collective bargaining has been placed at a great disadvantage during the last two decades. Moreover, one of the essential prerequisites for voluntary collective bargaining, namely, an efficient machinery for determining a single bargaining agent (which could be a majority representative Trade Union) has been conspicuously absent. Even till the middle of 1974, there has been no consensus among All-India Federations of Trade Unions, or a decision by government, to provide essential prerequisites for voluntary collective bargaining, or withdrawal of the disincentives in the form of compulsory adjudication under law. On the other hand, the power to refer or not to refer a dispute to a Court or Tribunal has been used as a lever by the Central and State Governments often to support a preferred Union. In the process, the proclaimed intention of supporting voluntary collective bargaining has remained a dream to a large extent.

Even the Indian National Trade Union Congress which is the largest federation and which has always been supporting government policy has now started criticising the legal machinery provided under various Acts. The Secretary of INTUC said in the Second ILO Seminar (November 1973):

“With the passing of time, the conciliation machinery became ineffective, voluntary arbitration rarely available, and adjudication machinery became time-consuming and costly. This Act (The Industrial Disputes Act, 1947) was largely responsible for converting the parties into perpetual litigants. The Act, which was useful in its earlier years, has long since become outmoded.”<sup>5</sup>

The emphasis laid in the Second and Third Five-Year Plans on the use of voluntary codes of discipline and conduct, on Works Committees and Joint Management Councils in industry to play a predominant role in industrial relations, has also not been successful as noted by the National Labour Commission.<sup>6</sup>

The powers for reference of industrial disputes to labour courts or tribunals for compulsory adjudication were literally lifted from the Defence of India Rules, 1942, and incorporated in the Industrial Disputes Act, 1947. The Government wanted to retain these powers. The unions found an easy expedient under law to engineer an industrial dispute which always resulted in some benefit to the trade unions and their members. Therefore, the voluntary institutions for settlement of disputes envisaged in the Five Year Plans remained mostly infructuous. According to the Report of the Labour Ministry in spite of efforts made during the last one and a half decades, the number of joint management councils remains very small.<sup>7</sup>

Since the policy enunciated in the Five-Year Plan was designed to ensure industrial peace, it may be helpful if reference is made to the statistics relating to this issue.

Though several efforts have been made to minimise industrial disputes and the incidence of man-days lost, it appears that the number of industrial disputes and the number of work-stoppages in the form of strikes and lock-outs have been increasing steadily during the last two decades. The trend has been more significant during the last decade, as is clearly shown in Table II.

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<sup>5</sup> Paper presented at the Second ILO Seminar at Bangalore, Oct.-Nov. 1973, p. 4 (cyclostyled).

<sup>6</sup> Report of the National Labour Commission, Government of India, 1969, New Delhi.

<sup>7</sup> Report for 1972-73, Ministry of Labour and Rehabilitation, Government of India, New Delhi.

**Table II**  
**Industrial Disputes Classified by Strikes and Lockouts, 1961-62**

<i>Year</i>	<i>Disputes</i>	<i>Workers Involved</i>	<i>Man-days lost</i> ( <sup>'000</sup> )
1961	1,357	511,860	4,919
1962	1,491	705,059	6,121
1963	1,471	563,121	3,269
1964	2,151	1,002,955	7,725
1965	1,835	991,158	6,470
1966	2,556	1,410,056	13,846
1967	2,815	1,490,346	17,148
1968	2,776	1,669,294	17,244
1969	2,627	1,826,866	19,048
1970	2,889	1,827,752	20,563
1971	2,752	1,615,140	16,546
1972	2,912	1,593,333	17,921

SOURCE : Indian Labour Statistics, 1973, published by Labour Bureau, Simla, p. 152.

It will appear that after 1965 there has been a sudden spurt in the number of strikes and lock-outs; in fact, they have more than doubled, so have the number of man-days lost. Perhaps the year 1970 was the worst when the total number of man-days lost reached the highest figure, *i.e.*, 20,563,000. There has been a slight decrease in the years 1971 and 1972, but though figures for the year 1973 and 1974 are not yet available, it seems certain that they must have gone up considerably, due to the tremendous rise in the cost of living and consequential industrial unrest.

An interesting sidelight is provided by Table III on the causes of such disputes. It is significant to note that the maximum number of disputes, more than one-third, in these years have been due to 'wages and allowances'. Another major cause is 'personnel and retrenchment' which accounts for more than one-fourth of the total number of disputes. While bonus accounted for only 7.9 per cent of the disputes in the year 1964, after the passing of the Bonus Act in 1965, the number of disputes on account of bonus have not been reduced, but have actually gone up considerably. The figure stood at 14.1 per cent in 1971.<sup>8</sup>

<sup>8</sup> Indian Labour Statistics 1973, Labour Bureau, Government of India, Simla.

Table III  
Percentage Distribution of Industrial Disputes, 1961-71

Cause	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
Wages and Allowances	30.4	30.2	27.8	34.9	33.5	35.8	39.9	38.4	36.0	37.1	34.3
Bonus	6.9	12.3	10.0	7.9	9.9	13.2	10.9	9.4	10.0	10.6	14.1
Personnel and Retrenchment	29.3	25.2	25.9	27.4	27.3	25.3	23.6	28.2	26.6	25.6	23.0
Leave and Hours of Work	3.0	0.7	4.6	2.0	2.5	2.4	1.0	1.9	2.2	2.1	1.4
Discipline and Violence	—	—	—	—	—	—	—	3.2	3.8	3.8	3.6
Others	30.4	31.6	31.7	27.8	26.8	23.3	24.6	18.9	21.4	20.4	23.6
Total No. of Cases	1,314	1,474	1,466	2,122	1,825	2,536	2,760	2,717	2,609	2,843	2,723

SOURCE : Indian Labour Statistics, 1973, published by Labour Bureau, Simla.

One of the major objectives of planned economic development has been increasing productivity. But in spite of lip-service paid to productivity in seminars and conferences, the trade unions have not agreed to it specifically. Moreover, in most of the wage-awards given by courts and tribunals and even by arbitrators, no linkage between wage increases and productivity seems to have been established anywhere in any industry. The general trend has been that increases in wages and dearness allowance, etc., have been granted to offset the rise in the cost of living. The basic wages have remained low in most of the major industries, and only the component of dearness allowance and bonus have steadily gone up.

Thus the major objectives of industrial relations policy seem to have been hardly achieved, during the last two decades.

#### THE NATIONAL LABOUR COMMISSION

The problems of industrial relations had assumed such proportions in the 1960's that under pressure from the All-India Federations of Trade Unions and employers alike, the Central Government had to appoint a National Labour Commission in 1966 to look into the causes of industrial unrest, and to make recommendations to improve matters. It had eminent representatives of employers as well as labour leaders as members under the chairmanship of an *ex* Chief Justice of India. It laboured for three years, appointed a number of study groups and published a voluminous report in 1969. It recognised that there had been a great imbalance in the role played by various parties in the matter of treatment of issues. While managements and unions have been left with marginal or wrong roles, the major role has been in the hands of the State.

Some of the major recommendations of the National Labour Commission are significant enough to merit reproduction:

163. "In the absence of arrangements for a statutory recognition of unions, except in some States, and provisions which require employers and workers to bargain in good faith, it is no surprise that *collective agreements have not made headway in our country.*"

165. "Conditions have to be created for promotion of collective bargaining. The most important among them is statutory *recognition of a representative union as the sole bargaining agent.*"

175. "*An Industrial Relations Commission on permanent basis should be set up at the Centre and one in each State for settling interest disputes. I.R.C. will be an authority independent of the executive.*"

195. "*Works-Committees* may be set up only in units which have a recognized union. The union should be given the right to nominate the workers' members of the Works Committee."

196. "When the system of union recognition becomes an accepted practice, managements and unions will have to extend cooperation in matters they consider, to be of mutual advantage and set up a *joint management council*."<sup>9</sup>

But even after five years, many important recommendations have not been implemented by the Government. The Ministry of Labour has reported:

"Some of the major recommendations of the Commission like the recognition of trade unions, machinery for settlement of industrial disputes, etc., could not be implemented due to lack of consensus of opinion amongst the trade unions."<sup>10</sup>

The lack of consensus among the trade unions on the recommendations of the National Labour Commission may be due to many reasons. The political orientation of the Trade Union Movement has been mainly responsible for wide differences of opinion among them. For instance, the Vice-President of the All-India Trade Union Congress, presenting a paper to an I.L.O. Seminar, commented:

"The National Labour Commission has made several proposals such as fixing the minimum number of persons who should be members for registering a trade union, the minimum statutory fees that is to be collected per year from the employee, the initial membership fee, the power to withdraw the certificate of registration by the registrar, etc. These proposals are fraught with grave dangers to the independent, democratic functioning of the trade unions without governmental interference. It should be pointed out that this has been opposed by all sections of trade union movement in the country, namely AITUC, INTUC, HMS, etc."<sup>11</sup>

For similar reasons, there has been a stalemate in the discussion in the tripartite forums set up by the Central Government including the Annual Labour Conference. The setting up of a working group of employers and workers in December 1971 was intended to thrash out important issues like the recognition of unions, Industrial Relations Settlement Machinery, etc., and to help employers and workers to come to some agreed conclusions. The

<sup>9</sup> Report of the National Labour Commission, Government of India, 1969.

<sup>10</sup> "Twenty Sixth Year of Independence, Work in the Labour Field", *Indian Labour Journal*, September 1973, p. 1286.

<sup>11</sup> M. S. Krishnan, Paper presented to Second ILO Seminar at Bangalore, Oct.-Nov. 1973, p. 4 (cyclostyled).



working group had had several meetings but had not been able to come to any unanimous opinion about these issues.<sup>12</sup>

Thus, due to continuous failure of trade unions and employers to come to any agreed solutions in matters relating to industrial relations, government decided to proceed with the finalisation of action on some concrete proposals for bringing out a comprehensive legislation on industrial relations covering steps like revised definitions of 'industry' and 'workmen', procedure and machinery for settlement of disputes, procedure for strikes, lock-outs, recognition of trade unions, unfair practices, standing orders and trade union law which were placed before the 23rd Session of the Labour Ministers' Conference in May 1972.<sup>13</sup>

According to the latest available reports an Industrial Relations Bill is still in the drafting stage.

Similarly, the Bonus Review Committee has also not been able to come to a consensus on the quantum of bonus even after three years. Recently an Act has been passed to enforce payment of compulsory bonus at the rate of 8.33 per cent for the year 1973.

Looking at the broad canvas of the state of industrial relations in the 1970's, it appears that we are passing through an unprecedented era of drift and uncertainty, of flux and fluidity. Most of the major issues have remained unattended to for more than two decades. If we try to look back at history, it will be interesting to note that repeated attempts to rationalize labour laws by means of a Labour Relations Bill and a Trade Union Amendment Bill in 1950, have failed as they were allowed to lapse. The then Labour Minister, Shri Giri tried to revive these defunct bills. Due to the political climate prevailing at that time, there was opposition from various quarters including the Indian National Trade Union Congress and the major employing Ministries. Shri Giri resigned from the Central Ministry of Labour in 1954, and with that the efforts to provide compulsory recognition for trade unions and promoting voluntary collective bargaining came to an end.

If an attempt is made to identify broadly the characteristic features of industrial relations in the last three decades in India, they would appear to be:

(I) 1946-1955—*An Era of New Deal for Labour*

It was characterized by passing a number of legislative measures conferring rights and privileges on the industrial working class.

<sup>12</sup> Annual Report, 1972-73, Ministry of Labour and Rehabilitation, Government of India, New Delhi.

<sup>13</sup> *ibid.*

(II) 1956-1965—*An Era of Voluntary Codes*

It was marked by a shift from the law courts to voluntary codes and attempts to introduce joint consultation. However, empirical research conducted on joint management councils has brought out data which lead to the inescapable conclusion that the voluntary codes and the Joint Management Council have not gained acceptance.

(III) 1965-1974—*An Era of Uncertainty and Drift*

This decade has been a period of search for a new policy of industrial relations. The Central Government appointed a National Labour Commission after almost 40 years to go into details of the entire industrial relations policy and make recommendations. It had made some important recommendations, which, if implemented, would have changed the picture, but this has not been done so far.

#### MAJOR POLICY ISSUES

In this state of drift and uncertainty, most of the major policy issues have remained unsolved.

(a) No criteria have been laid down for recognition of trade unions, whether it should be the majority representative trade union or an union in an industry. All trade unions continue to have equal rights under law, and compete with each other in raising more and more disputes.

(b) There are a number of rival trade unions in each plant or establishment. The question of determining a *single bargaining agent* has so far remained unanswered, since the Government have not been able to lay down any criteria in the absence of a consensus among the major trade union federations.

(c) The practice of referring disputes to compulsory adjudication by State Governments and Central Government with a view to maintaining industrial peace has created more problems than it has solved.

As a result, several major problems are raising their ugly heads with the worsening of the economic situation, and consequent labour unrest.

The Government have now belatedly bowed to the inevitable, that there should be a National Wage Policy. It seems to be too late. During the last three decades various courts, tribunals and wage boards have given their awards fixing wages, dearness allowance and fringe benefits, with the result that disparities have widened. In regard to bonus, it has always been a bone of contention, and even after the Bonus Act, the number of disputes have been increasing.

Rivalry among trade unions, both inter-union and inner-union, have become a major administrative problem in most Government and industrial establishments. What is worse is that there are no agreed criteria or yardsticks in sight by which the claims of rival unions can be assessed, and a representative union can be decided upon.

The need for increasing productivity in the context of economic development is paramount. In most government and public sector undertakings actual production is much below the rated or installed capacity, and perhaps it is not much better in the private sector either. While tribunals, courts, and arbitrators' awards have allowed increases in wages, dearness allowance or fringe benefits, none has ever tried to establish any linkage with productivity. A few years ago the then Central Minister for Labour reviewing industrial relations policy and the measures adopted to improve it, complained: "In spite of these measures labour remains to a large extent an outsider in the economic affairs of the country. It has its demands, but is reluctant to accept responsibility for augmenting the wherewithal with which to meet them on an enduring basis. We are yet to reach a point where labour force is fully involved in the development process itself."<sup>14</sup>

When in addition we have the mounting number of industrial disputes, strikes, lock-outs and the number of man-days lost, the polarization in the trade union movement and the internal conflicts among Trade Unions following the rifts among the dissenting group even in the same party, it will become clear that the country seems to be heading towards what looks like complete chaos.

Judged by any standards, the state of industrial relations in the seventies has been far from satisfactory. The present policy does not seem to satisfy any of the parties concerned,—the employers, the employees, the government, or the consuming public. A search for a new approach to industrial relations is being made for more than a decade, but no tangible results, or change is visible so far.

Looking back over the last two decades, it seems that there has been a patent ambivalence in our approach to the problems of industrial relations. When the National Government took over in 1947, it was generally advocated by many political leaders and members of the government that a developing country like India could ill-afford the luxury of free collective bargaining which may entail some industrial unrest. A basic legislative framework for industrial relations was drawn up incorporating provisions for compulsory adjudication from the Defence of India Rules, 1942. The enthusiasm

<sup>14</sup> R. K. Khadilkar, "Shape of Labour Policy to Come—Loud Thinking", *Oil and Chemical Worker*, Oct.-Nov., 1972, Bombay.

for compulsory adjudication began to wear off in late 1950's. If one probes deeper, one finds that after 1955, the impact of the government has become progressively weak, the tripartite machinery ceased to arrive at purposeful or meaningful contributions to policy-making, the wage-board system virtually broke down in the 1960's, and in spite of government having armed itself with tremendous legal powers, the number of strikes and work-stoppages have greatly increased.

The appointment of a National Labour Commission and its recommendations which came in 1969 have led to more controversy, among the All-India Trade Union Federations. We have entered the seventies with more differences, and resultant conflict. The expanding dimensions of the strain that the employer-employee relations are undergoing in all sectors, government, public, and private industry, have become more and more evident in recent years. Recently, the more important strikes in the public sector, in the Indian Airlines, and in the government sector, namely, in the Railways, have shaken the economy badly. These manifestations of widespread unrest cannot be dismissed as politically motivated.

What is more disturbing is that the accentuation of these stresses and strains has been accompanied by a weakening of the legislative and operational framework, and the ineffectiveness of the executive machinery for regulation and resolution of industrial disputes. The government has been forced to resort to ruthless measures to deal with the situation. It remains to be seen whether such repressive measures can ensure lasting industrial peace.

It has become more apparent in recent years that in India the game of tripartite determination of industrial relations policy, is perhaps being played with three different sets of rules, one for employers, one for trade unions, and another for the government, each of whom having perhaps a different perception of the same reality. As an observer remarked in a lighter moment, it is like three players playing rummy, bridge and flash in the same deal. Unless a common set of rules is evolved, any agreement between any two parties will appear as patently unfair to the third; and this real difficulty cannot be discounted.

There are no doubt many other aggravating factors apart from the worsening economic situation; but the continually changing emphasis in our political involvement has made it impossible to evolve a common set of rules to govern this important relationship.

In the absence of an agreed set of rules, a pretty difficult situation has emerged, where the employers—both in the public sector and the private

sector—are rendered sterile, and the government watches as a helpless onlooker. In this context, the mantle of leadership seems to have fallen on the shoulders of trade unions, who lack maturity. While there have been increases in wages, dearness allowance and bonus, there has been no linkage with productivity. Productivity seems to have become a dirty word, second only to the word 'profit'. In fact, there seems to be a distinct shift away from productivity in those sectors where job-security is guaranteed; for example, the government sector and the public sector.

In such a climate of chaos and gloom, he would be a bold person indeed who can predict the shape of things to come. If one can be excused for cynicism, one would like to venture a remark that in the last three decades, the government has been too much with us in the matter of industrial relations. This was pointed out by the National Labour Commission too. Whatever may have been the impact of government policy and legislation on industrial relations practices hitherto, a development towards a bipartite voluntary relationship seems to be an urgent and inevitable issue of industrial relations policy. The easy expedients and props which have been provided by legal measures are no longer useful, and therefore, have to be cast aside. A new climate of industrial relations based on voluntary bipartite relationships has to be built up after a hard-headed appreciation of the nature of the challenges ahead.

From the available indicators, perhaps no consensus among the trade union federations in the present political context can be expected in the near future. Even if an Industrial Relations Bill is enacted (based on the recommendations of the National Labour Commission), since a lot of water has flown down the Ganges during the last five years, it is doubtful whether it will be able to improve the present situation to any appreciable extent.

One recalls an interesting incident. In 1962, when the country was faced with foreign aggression, namely, the China War, the Joint Consultative Board for Industry and Labour had seriously examined a proposal for setting up a voluntary joint industrial relations service to assist parties in specific disputes for their resolution. The merits of such a service were recognized but the proposal was abandoned when the war was over. Perhaps war or any national emergency seems to be a better motivator for more rational industrial relations. The crux of the problem is that it is a bipartite relationship, which requires a sympathetic and supportive climate.

Though the sky at the moment seems to be overcast with dark clouds, the silver lining seems to be the appreciation and importance given in the draft Fifth Five-Year Plan, which emphasises healthy industrial relations as

a *sine qua non* for economic development. The plan outlines some major steps within a broad policy framework.

5.62. "In the first place, it will be necessary to provide *an equitable system for sharing the gains of higher productivity*. One effective approach will be to broad-base the reward structure of the industrial employees in terms of wage and non-wage benefits on the one hand, and on the other, *to link the wage-structure more directly to productivity in industrial enterprises*."

5.64. "Secondly, in order to sustain conditions of peace for higher performance, *an improved institutional framework for effective bargaining relationship between the representatives of employees and the management needs to be created*. This would involve the definition of conditions for the determination of the representative character of the bargaining agent. Bipartite relations would have to be given a predominant role in establishing a more productive climate of industrial relations."<sup>15</sup>

Thirdly, they have suggested that a systematic programme for re-education of employees at all levels should be attempted in order that they may become more responsive and cooperative.

It remains to be seen over a period of time how these cornerstones of industrial relations policy are properly spelled out, operationalized, and implemented in actual practice, as in the ultimate analysis, employer-employee relations exist in a context. They are by and large determinate results of social, political and economic currents—rather than determining forces.

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<sup>15</sup> The Draft Fifth Five Year Plan, Planning Commission, Government of India, New Delhi, Part II, p. 74.

## STRATEGY FOR INDIA'S INDUSTRIAL DEVELOPMENT

*Mohit Sen*

**I**N broad outline the strategy for India's industrial development is fairly well-known and has been so far at least two decades. Around this strategy a fair measure of agreement has been reached between the Left and democratic parties and forces, including those in the ruling party. This has been the case since the days of the debate around the celebrated Mahalanobis Plan frame on the basis of which a distinct turn was made away from the approach embodied in the First Plan and towards the building of heavy industries in the public sector which was the chief new feature of the Second Plan.

While there was a broad area of agreement among the progressive forces in the country regarding this approach, there was also the gathering of reaction around opposition to this strategy, especially as its implications with regard to the external economic relations of our country became clear.

The agreement of the progressives, however, stopped short at approving the general outlines of the strategy. Disagreement surfaced thereafter with regard to the question of finding financial resources for heavy industrial development and the approach to the private monopoly conglomerates which had already taken shape at about that time. With Pandit Nehru opting for the mixed economy and attempting to go forward by arranging peaceful coexistence between the public sector and the private monopolists, naturally the CPI and a broad spectrum of Left opinion ranged themselves in the opposition. Already at that time the CPI warned that attempting the industrialisation of India along independent capitalist lines was bound to end in crisis and a deadend. The strategy for India's industrialisation had to be linked with radical socio-economic transformations that would place our country on the non-capitalist transition to socialism. The essence of these transformations was to be the elimination of monopolies in the industrial sphere and of procapitalist and capitalist landlordism in the agrarian economy along with a shift away from occupying a special position in the world capitalist division of labour. But whatever may have been his subjective intentions, the strategy of Pandit Nehru was not to effect the transition to socialism but to build a modern, independent capitalist India. This was an



impossible task and the tragedy of Pandit Nehru, his Quixotism lay in this and his indecisiveness was a reflection of the fact that he himself knew this.

Thus, any discussion on the question of the strategy of industrialisation in India today has to take due account of this experience of the failure of the thrust towards modernity which a very great national leader tried to carry through.

But the stressing of fundamental aspects of the failure of India to industrialise in twenty seven years is not the same thing as stating that, unless and until fundamental changes are made, absolutely nothing can be done. Indeed, the most difficult and crucial problem in India is the working out of mediations, transitional phases of development both economic and political, an entire chain of transitions to the point or moment of the qualitative leap.

It is against this background or in this conceptual framework that I would attempt a sketch of the strategy of India's industrialisation at the present phase of our historical evolution.

In doing so and in concentrating attention upon this single problem I am not overlooking the interconnections of this problem but I am at the same time quite definitely attaching a weight to this problem in the general complex of problems that make up the crisis of India today. Next only to the question of political power—both in the basic sense of the state power and in the broader sense of balance of the political strength of different classes in our country—in order of importance is the problem of industrialisation of India. Indeed, these two problems are very closely connected and, in many ways, the latter is at the centre of the furious struggle that now proceeds in the sphere of the former.

## II

I would like to start by stressing the fact that India is not an unindustrialised country nor is it an industrialised one. It is still an agrarian-industrial country. It is at the medium stage of capitalist development. Of course, this latter term denotes a great deal more than just a particular amount of industrialisation but it also describes a certain stage that has been reached in our journey. India now possesses certain strengths which she did not have before and which are far greater than almost any other nonsocialist underdeveloped country. Above all, she has now a fairly numerous industrial and services work force with quite a considerable technical intelligentsia. Recent estimates are that there are as many as 19 million people employed in the organised sector of the Indian economy. Many fairly

sophisticated industries have come into existence, *e.g.*, the electronic, petrochemical and the atomic power industries. Significant strides have been made in the steel and engineering industries which have qualitatively enhanced the power of fabrication possessed by our country. A great deal of this, by far the biggest portion, is in the public sector which enhances the socialisation of the production process in India and which is, indeed, the biggest factor for national integration as well as democratic advance. An essential and important element in this process is the strengthening of the backward and forward linkages between industry and agriculture which, incidentally, also makes for globalising crisis symptoms in the economy.

Among the most vital of the strengths acquired by our industry is the development of close relations with the Soviet Union and other friendly socialist states. These were raised to a qualitatively new level by the protocols that were signed towards the end of last year during the visit of Brezhnev to our country and which have been followed up in the current year more particularly in the meeting of the Indo-Soviet Commission in Moscow. The industrialisation of India acquires an altogether firmer foundation as a result of its closer integration with the Soviet Union and other friendly socialist countries.

It would be criminally complacent and onesided, however, to focus attention only upon these strengths though it would be advisable to always keep them in mind particularly these days when there is no lack of doomsday prophets. The larger reality is that India is industrially backward, is being left behind in the race that the world witnesses in the field of industry. The fact further is that to industrialise in the contemporary world requires far greater investments and effort than in the past. The lumpiness or the leaplike character of industrialisation has enormously increased. This has some quite sombre implications for India that even after twenty seven years of independence is only producing a bare seven million tonnes of steel.

Backwardness and underdevelopment indicate that we are yet to overcome the colonial legacy. What is worse is that we are rendered thereby specially vulnerable to neocolonialist pressure and even subversion. This danger is increased by the fact that India remains a country that is still occupying a special place in the capitalist international division of labour. Both the state-monopoly-capitalist depredations as well as the multinational incursions are clear and present dangers to our independence, more especially to our efforts at achieving industrial self-reliance.

This danger is heightened by the fact that the capitalist path of development pursued since freedom by the ruling class and party has inbuilt features

militating against rapid industrialisation. It is after all a path of development that has an intrinsic element of compromise with imperialism and landlordism. It is a path of development that is governed by the law of value operating through market forces leading to the inevitable anarchy of production. It is a path of development that, on the one hand, holds up the productive breakthrough in agriculture relying as it does on a very narrow stratum in the rural areas and, on the other, is unable to effect the transfer of resources from agriculture to industry without which industry cannot acquire its autonomous momentum. Rural backwardness narrows the market for industry and the landlord capitalist farmer-usurer block starves it of resources.

The capitalist path of development is one which throws up monopolistic conglomerates which are even more parasitic than those in the developed capitalist countries since they have not shed their pre-capitalist features and never been through the full phase of industrial capitalism. Our monopolists are *bania* monopolists, by and large. And this specific type of monopolist has acquired a stranglehold not only on the consumer goods department of our industrial structure but linked up with trading capital through the parallel black money economy which gives it almost decisive control over a large spectrum of wage goods. Moreover, the consumer industries it develops cater to a specific type of consumer market catering largely to a *mestizo* middle class which is tailor-made to act as the social base of neocolonialism in the country. It is also through the Indian monopoly capitalist stratum that the imperialist countries and their multinationals are imposing a somewhat new and highly maleficent technological imperialist domination on our country.

The capitalist path of development has also proved its incapacity to overcome the deformities and deficiencies which are a concomitant of the multistructural character not only of our economy as a whole but of Indian industry more particularly. The almost parallel development of the small and large portions of medium-sized industries alongside the large and more properly so-called modern sector of Indian industry imposes constraints and leads to waste as also leakages which our industrial growth cannot afford or even cope with.

Finally, the capitalist path of development followed since Independence relies for the steering of the industrialisation process upon the bureaucracy, the leading portion of which are relics from the colonial days and which sucks up and sucks dry whatever vitality there is in the new entrants to the upper echelons of the administrative service. The more spectacular cases of personal corruption apart, the upper echelons of the administrative services are corrupted by the very character of the role they have to play, the sources

from which they come and the psychology which permeates it. Their training incapacitates them from even grasping the problems of development much less managing the onward rush of rapid industrialisation which is, after all, the only possible form of industrialisation. Not that they are unaware of this incapacity. They are. And it is this awareness that makes them almost rabidly opposed to any entry from outside their closed preserves. I am not referring here to the obstacles that are raised in securing the services of so-called professional managers from the private sector. After all, these gentlemen are the first cousins, often enough the brothers of the top civilians. Their entry into the rarefied upper stories of private sector management is mainly the result of their birth and the professionalism which they are supposed to possess is of a sham character and the values they cherish are scarcely different from those of the top bureaucrats, sometimes even a shade more anti-national and nauseating. The real bureaucratic opposition is to the entrants from the working class, the employees and the technical intelligentsia. But without the constant upward mobility of these classes and strata, no comprehensive and substantial industrialisation is at all possible.

### III

The strategy for industrial development must, therefore, take full account of the obstacles mentioned above. It is in this sense that I feel the approach of the Fifth Five Year Plan, though a considerable improvement over what had been postulated in the Subramaniam-Minhas document, is seriously deficient. It would like a simple return to 1955 and the rather headier days of the Mahalanobis-Nehru model. But a mere turn of the wheel is not possible either in life or in economic development. Nor is simple negation. The twist of the spiral and the negation of the negation is what ensues in reality if one has the sense one assists the process.

The *first* element in the new strategy that must be adopted in my view, is the substantial curbing of our connections with the imperialist world. This is all the more necessary in view of the onset of the qualitative deepening of the third stage of the general crisis of capitalism. This is not at all to say that India should adopt an autarchic attitude to the imperialist countries. But the alternative to autarchy is not excessive dependence. Unless a measure of insulation and immunity is developed in relation to these countries, the possibility of realistic planned calculation is out of the question. Indeed, planning itself is not possible as we have seen in relation to the finalisation of the Fifth Plan. And let us remember that either India would achieve industrialisation through planning or it would not achieve it. There is no other alternative before India. An immediate exercise should begin to examine where and how soon we could do without what we receive from the

imperialist countries and what we supply to them. In other words, there should be a reversal of the procedure today when the search for alternatives begins only when for some special reason it is not possible to secure from or to supply to the imperialist countries. This would be a 'cultural revolution' of unprecedented dimensions as far as the policy-makers and implementors in our country are concerned.

As a part of this process it is absolutely necessary to immediately delink the rupee from sterling. There is not a shred of economic sense in our keeping the rupee tied to the value of a depreciating and sharply fluctuating currency. The value of the rupee should be linked with gold with maximum vigilance and initiative for varying, the value should the needs of the national economy demand it.

The *second* element in the new industrial strategy is for the curbing of foreign and Indian monopolies operating in India through nationalisation or such other appropriate transitional measures that may be advisable. The state sector must rapidly expand into and occupy the commanding heights in the consumer goods sector of industry, *i.e.*, of the wage goods or essential commodities sector, be it in the sphere of production, trade or distribution. Without doing this, it would neither be possible to control prices nor to secure surpluses of an adequate order from within the public sector. Just as it happened in the case of banks, experience has shown that it is not possible to control the private monopolists. By a thousand ways, including unauthorised expansion of capacities and unauthorised patterns of production, the monopolists have set at nought all the various control measures of the government and reaped enormous unaccounted profits thereby. Steeper excise, after all, cannot be levied on goods whose production is not even declared. Not merely that. The private-monopolists through their investment strike and hoarding have virtually declared an economic war against the Indian state and people—how else is one to describe the stand taken by the private wholesale dealers when the wheat trade was handed over to them or the approach of the soap manufacturers or the standard cloth producers? It is certainly all to the good that the government has decided to nationalise the sick mills that it had taken over though the compensation paid is fantastically high. I would expect that a similar procedure would be followed in the case of IISCO. Incidentally, it should be noted that what was sick in the private sector be it textiles or steel has recovered a modicum of health in the public sector.

It has to be stressed here that in recent times far too little attention is being paid to the enormous drain that goes on by way of the repatriation of profits, royalties and fees by the private foreign monopolies. The Rs. 42 crores annual repatriation recently mentioned by Shri Y. B. Chavan is really only the

tip of the iceberg. All the studies made by UNCTAD economists and other quite reputable and respectable representatives of the tribe of economists make the point that the operations of private foreign monopolies, unless properly checked, controlled and sometimes eliminated, are immensely harmful to the countries where they invest. The new approach of only labour-intensive industrialisation in the Third World is a thinly disguised effort by the multinationals and their agents to prevent any comprehensive industrialisation at all. It is a refurbished version of 'agrarianising' the colonies which imperialism practised in the past. Ban on all remittances of profits, royalties, fees and reserves by private foreign monopolies has to be combined both with the nationalisation of foreign oil and drug companies as well as the moratorium on all foreign debt repayments which entail the expenditure of foreign exchange.

Nationalisation apart, a long overdue measure is the acceptance by the government of the recommendations of Dutt Commission, *i.e.*, the conversion of government loans into equity and of management rights commensurate with such holdings of equity. The only reason that the government fights shy of accepting this recommendation is the powerful influence wielded by the monopolies at all levels of the ruling party, government and state apparatus.

The *third* element in the new industrial strategy is the restriction of planning to the expansion of the public sector. It is quite impossible to have planning for the entire industrial sector so long as private ownership is so widely and firmly established therein. The government has to make the hard decision that it is going to give priority to the development of the public sector and that, what is possible for it to do after that, it would do for the medium and small industrial sector. Public sector industries must be strictly planned and that, too, chiefly with physical approach. The public sector has to be taken for what it is in fact—the only real instrument for India's industrialisation. Resources in materials manpower, foreign exchange, rupee funds and the rest have first and foremost to be earmarked for the public sector. What can then be spared should be spared for the private sector. The attempt at balancing the needs of the public and private sectors in industry has to be totally and openly abandoned.

As of now, the thrust of the public sector should be in the fields of steel, heavy engineering, power, electronics and petro-chemicals. But this is naturally a hazardous suggestion since in my view, the kind of quantitative and perspective exercises in relation to India's industrialisation have only now begun to be made. Indeed, the work of exploration of India for the purpose of pushing forward industrialisation is so meagrely attended to as to make one almost despair.

Another extremely important point about the public sector is the need for its democratisation. Unless the bureaucratic grip over the public sector is broken, there is no hope for it to serve as the focal point of national growth. The public sector must not be allowed to remain the happy hunting ground for either retired civil and military personnel or for others on the way to better things. Nor is it any use for these unsuitable persons to be replaced by bringing in the managers from the private sector who all too often come in not only with the whole pernicious culture of the private sector but also as bearers of its interest. The point here is, as it were, to bring about a second nationalisation of the public sector. And this can only be done by the worker-technical intelligentsia bloc coming forward to take control of the production process. Those who produce have to take over the management or, at any rate, be co-partners with such managers who are committed to the concept of the public. Today it is, perhaps, easier, to search for a needle in a haystack than to find public sector managers who have faith in its possibilities.

The pricing policy of the public sector has also to be such as would enable it to produce surpluses and not for it to serve as feeders eventually for private sector profits. The argument that it is the public sector that is itself the biggest purchaser of public sector products does not hold water, if the public sector is treated as an entity and internal supplies, therefore, treated on a different footing from sales to those who are not so connected. Indeed, an indispensable element for the growth of the public sector is discrimination by it in favour of itself. This, too, is possible only, if the public sector as a whole is treated as an entity.

The *fourth* element in the new industrial strategy is the strengthening of the already extensive ties with the Soviet Union and other friendly socialist states. Since these are the main suppliers of equipment for the setting up of public sector plants, it is essential that there is for greater link up of the plans and the planning commissions of India and these countries, joint ventures in third countries, build-up of capacity linked with mutual markets, stable price contractual agreements, greater emphasis on technical training and design work. There is more than enough experience to confirm the conclusion that it is only these countries which are really interested in our industrialisation and in the development of the public sector. It should be realised, however, that, while there may be agreement about all this at the top political level, it is vehemently disliked and opposed at the administrative level. Just as an administrator committed to the concept of the public sector is a rare bird so is the civilian who really has his heart set on the consolidation and extension of India's external economic relations with the Soviet Union and other friendly socialist countries. And after all, it is at the level of detail that implementation of everything takes place and it is there that the bureaucrat is the master. Then unless there is a change in approach brought about



by democratic pressure not all the talk in the world about friendship and the rest is going to be of the slightest use.

The experience of recent years has again demonstrated that not only is there no export of profits by the socialist states from India but that the stable prices help the creation of values far in excess of what has to be paid back. It is aid in the industrial sphere from these countries that will enable the public sector to contain the possibility of surplus. And it can be stated that neither USA, ECM nor Japan has the dynamism and potential of the socialist countries which have come together in the Council for Mutual Economic Assistance. It would be very profitable for India to examine in greater depth the possibility of more formal connections with the CMEA, which is not a closed group.

The final element in the new strategy for industrialisation to which attention needs to be drawn is the extension of connections with the progressive Arab regimes or in West Asia generally. It would be the height of folly and narrow-mindedness to believe that the raising of the price of crude is aimed at countries like India. It is aimed against those very same imperialist powers who are holding us to ransom as well. It is a battle to establish a fairer equilibrium between what the underdeveloped world buys and what it sells, to mitigate if not to end exploitation by means of non-equivalent exchange. It is true that, in the process, we are placed in special difficulties due to our overdependence on external sources for our oil and that, too, through multinational companies. We have certainly had the wisdom to pursue a correct political approach to the problems of West Asia, based on anti-imperialism. But this perspicacity deserted us when it came to economic problems. We had not the ghost of an inkling that a time was coming when West Asia would turn oil into this kind of weapon. We, therefore, never really bothered to develop extensive economic contacts with the progressive regimes in the region. But it is still not too late to overcome the lag. With the toughening attitude of the imperialist powers towards the oil producers in West Asia, our higher level of technical and economic development can be utilised to aid them in various fields in return for which we could secure oil through agreements with credit and deferred payment which virtually amount to concessional purchase. Something of the kind has been done in this regard with Iraq but there are other countries like Libya and Algeria with which something similar could be attempted. Nor should Venezuela and Nigeria disappear from our economic horizon. Trilateral arrangements involving the Soviet Union and the progressive regimes of West Asia should also be brought into being as early as possible.

It is only this integrated new industrial strategy, tightly tied up with the struggle to alter the balance of political power, that can enable us to move to modernity and to socialism.

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# PLANNING FOR INDUSTRIAL DEVELOPMENT IN RAJASTHAN\*

*Rakesh Hooja & Harsh Sethi*

**I**N this article, we have tried to examine India's Industrial Policy Resolutions and the plan formulation and implementation machinery with respect to the State of Rajasthan. We have also attempted a survey of Rajasthan's industrial potential, a critique of the industrialization process in the State, and an analysis of the factors that limit the efficacy and efficiency of developmental administration structures in India.

## OBJECTIVES OF PLANNING

Soon after our Independence, the Indian Government, composed of the members of Congress decided to opt for a system of mixed economy—planned economic development in a broad framework of parliamentary democracy.

The Constitution of India enunciates Directive Principles of State Policy, which, though not enforceable by any court are “nevertheless fundamental in the governance of the country and it shall be the duty of the state to apply these principles in making laws”. Two of these Articles, Article 38 and Article 39 (a), (b), (c) are cited in the resolution of March 15, 1950 by which the Planning Commission was set up.

“The State shall strive to promote the welfare of the people by securing and protecting, as effectively as it may, a social order in which justice, social, economic, and political, shall inform all the institutions of national life.” (Art. 38).

“The State shall, in particular, direct its policy towards securing : (a) that the citizens, men and women, equally, have the rights to an adequate means of livelihood; (b) that the ownership and control of the material resources of the country are so distributed as best to subserve the common good; (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.” (Article 39).

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In practical implementation, the four main objectives of the government became to secure: (a) Growth; (b) Equity (this includes balanced regional development); (c) Self-reliance; and (d) Full Employment. In a 'socialistic pattern of society' which is what our country is aiming at evolving, the overriding aim of a 'Planned Economy' is achievement of these objectives. It is against this that we shall judge the efficacy of the 'Industrial Policy Resolution'; the entire planning and implementation structure, the actual policies followed—in short, our success and failure. All through, of course, let us keep in mind that the feasibility constraints—posed by the system—should not be ignored.

### INDUSTRIAL POLICY RESOLUTION

The Government had declared its intention, "to secure that technologically feasible rate of growth—which would provide full employment inside the country". In accord with this it formulated an Industrial Policy. The basic policy dates back to 1956, and though periodic revisions were made in the policy—and a new resolution was announced as late as 1972—the entire pattern still follows from the 1956 set-up.

In the light of the success of the First Five Year Plan, the provisions of the 1956 Industrial Policy Resolution were as follows:

Industries were classified into three categories:

- (a) those which were the exclusive responsibility of the State;
- (b) those which were to be progressively state-owned and in which the state would set up new enterprises, but in which the private enterprise would be expected to supplement the effort of the state; and
- (c) all the remaining industries to be left to the initiative and drive of the private sector.

Category (a) contained 17 industries—like arms and ammunition, all heavy industries (iron and steel etc.), coal, oil, shipping, railways, etc. This core sector was to be the kingpin of our development strategy.

Category (b) contained 12 industries: mainly mining, aluminium, chemicals, essential drugs, fertilizers, etc.

The attempt was to create a mixed economy in India for :

- (i) fair and non-discriminatory treatment for the government sector;
- (ii) encouragement to village and small-scale enterprise;
- (iii) the need for removing regional disparities;
- (iv) need for the provisions of amenities for labour; and

- (v) attitude towards foreign capital. The need for this was recognised, but it was made clear that as far as possible, the ownership and effective control should be in Indian hands.

With this basic structure in mind, the government instituted its policies for licensing, financial aid to the private sector, tax concessions, etc., and suitable revisions to the basic policy were made in the procedure for Industrial licensing—after the publication of the Hazari Commission Report 1966—and the Dutt Committee Report, July 1969—for Monopoly Control.

In February 1970, the government announced its new Industrial Policy—keeping a sectoral classification of industry and adding the concept of a joint sector—wherein the public and the private sectors will jointly collaborate in major projects involving investments ranging from Rupees one crore to five crores—in all sectors other than the basic core sector.

The broad outlines to be followed at the national level hold good for Rajasthan also. No other important point has been made in the government decisions regarding its industrial policy.<sup>1</sup>

#### INDUSTRIAL POTENTIAL OF RAJASTHAN<sup>2</sup>

Before embarking upon a survey of what is available in the State and then attempting to formulate precise directions for policy, it should be kept in mind that Rajasthan has (1) surplus land, (2) deficit water.

Rajasthan has a rich haul of minerals—chiefly copper (reserves 112MT), beryl ore, zinc and lead ores (97MT), high grade iron ore deposits (11MT), manganese, tungsten, calcite mineral, gypsum, fluorite, mica, rock phosphate—all are available in adequate quantity—and offer possibility of industrial exploitation. The RIMDC and the GSI are undertaking further prospecting work and are carrying out in-depth studies for selected minerals. Mineral-based industries and chemical industries have good scope in view of the availability of raw material.

Because a large cattle and sheep population exists in the State, the sheep and wool industry has good scope in the State. Inadequate and uncertain

<sup>1</sup> See *Draft Fifth Five Year Plan—Rajasthan 1974-79*, Jaipur, 1973 and *Approach Paper—Perspective Plan for Industrial Development, 1974-84*, Jaipur, 1973.

<sup>2</sup> The material for this section has been drawn from:

(a) *Industrial Potential Survey—Rajasthan*, Jaipur, 1972.

(b) *Growth, Potential and Prospects—Industrialisation in Rajasthan*, Jaipur.

(c) *Draft Fifth Five Year Plan—Rajasthan, 1974-79*, Jaipur.

(d) *Approach Paper—Perspective Plan for Industrial Development, 1974-84*, Jaipur, 1973.

availability of fodder suggests the establishment of units for manufacture of cattle and poultry feed based on local raw materials.

The Dyeing and Printing industry, manufacture of handicrafts—all have a base in the State—and further expansion can easily be facilitated by expert help from the RIMDC. Manufacture of scooter parts (Alwar district), ceramic products, extraction of oil—all hold good prospects for development—especially in the SSI (Small-Scale Industries) sector.

Establishment of medium- and large-scale industries depends upon a variety of factors and inputs. We have surveyed the raw material resources above, and we now indicate the availability of other inputs like power supply, transport, labour and government assistance

#### (a) Power

Rajasthan has now entered the phase of abundant power availability. By 1974, the State will have thermal capacity 110 megawatts; nuclear capacity 350 megawatts; hydro capacity 194 megawatts; and total capacity, 654 megawatts.<sup>3</sup>

As an incentive to industrial consumers, concessional rates are offered to both MSI (Medium-Scale Industrial) and LSI (Large-Scale Industrial) units.

#### (b) Transport

The road system in the State is extensive and the state government is undertaking a major programme of further construction.

**Table 1**  
**Road Length and Number of Vehicles**

<i>Year</i>	<i>Length of Road</i>	<i>Road Length/100 km.</i>	<i>Private Carriers</i>	<i>Public Carriers</i>
1963-64	28,904	8.5	1302	9429
1966-67	30,854	9.1	2124	12302
1968-69	31,376	9.3	2928	16136

*Basic Statistics Rajasthan, 1970).*

The rail system is haphazard and one has frequently to shift from narrow gauge to meter gauge and to broad gauge.

The total railway mileage is 6225 km.; meter gauge, 5818 km.; broad gauge, 293 km.; and narrow gauge, 114 km. This is definitely unsatisfactory.

#### (c) Labour (skilled and unskilled)

Because of widespread unemployment, unskilled labour is cheap in most parts of the State. However, the required technical skills are lacking, though four engineering colleges (Jaipur, Pilani, Jodhpur and Udaipur), six

<sup>3</sup> Source: Rajasthan State Electricity Board.

polytechnics, and 15 I.T.Is., with an annual intake capacity of 3284 students, are very much easing the situation.

(d) *Governmental Assistance*

This is available in the form of tax concessions, subsidised power rates, liberal marketing assistance (especially cottage and SSI) which are entitled to a 15 per cent price preference over goods manufactured by MSI and LSI. Local goods are given a 3 per cent price preference over goods from other States. Now as per the Fifth Five Year Plan, the government is embarking on a major industrial expansion (over Rupees 30 crores in industries and mining). Thus industrial units should not suffer from lack of a market.<sup>4</sup>

Our brief survey indicates definite possibilities for industrial development in Rajasthan in spite of a lack of water supply and certain infrastructural facilities. Some definite projects identified by the Industrial Potential Team are:

- (1) Billets and steel castings with electricity and furnace (Kota).
- (2) Pig iron Unit 2 lakh tons/year (Udaipur).
- (3) Increasing capacity of zinc smelter—of Hindustan Zinc from 18,000 to 48,000 tons/year.
- (4) Manufacture of ferro-manganese.
- (5) Establishment of cryolite/aluminium projects (Durgapur).

The list identifies about 30 more projects.

Against this let us briefly survey the actual industrial development in the State in both the public and private sectors—and their plans for expansion (Fifth Five Year Plan).

During the Fourth Plan considerable growth has been registered in the industries sector. The number of registered factories rose to 2800 (1973). The total investment in the four central public sector enterprises (Hindustan Zinc, Hindustan Copper, Hindustan Machine Tools and Instrumentation Ltd.) is expected to increase from Rupees 16.86 crores (1966-67) to Rupees 105.28 crores (1973-74). In the private sector, significant increases have been recorded in the production of cement, vanaspati, fertiliser, synthetic fibres, chemicals and engineering goods. The trend in growth is also noticeable from the increase in loan assistance extended by the Rajasthan Finance Corporation (RFC). From 1964-65 to 1968-69, RFC disbursed a total loan of Rs. 449.9 lakhs to 146 units. What appears is a rosy picture. But many licences and letters of intent have not fructified mainly because of local disadvantages faced by entrepreneurs.

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<sup>4</sup> For further information see the *Handbook of the Department of Industries*, Government of Rajasthan.

Our employment-generation has been shoddy. Only 3.26 lakhs of additional employment was generated outside the agricultural sector in the Fourth Plan. As against this, we hope to create additional employment to the tune of 6.7 lakhs in the Fifth Five Year Plan. All this time the category of educated persons, registered as unemployed has risen from 35906 (1967) to 91355 (1972).

**Table 2**  
**Growth of Investment and Employment in Public and Private Sectors in Rajasthan**

	1964			1969		
	<i>Pvt.</i>	<i>Pub.</i>	<i>Total</i>	<i>Pvt.</i>	<i>Pub.</i>	<i>Total</i>
Number of Units	675	103	778	844	119	963
Capital (Rs. Lakhs)	5077	5901	10978	10101	18931	29032
Employment (Number of persons)	49786	26430	76216	62947	34739	97686

One feature of industrial development in Rajasthan is that industries have mainly been concentrated in the Kota, Jaipur, and Ajmer divisions. However, as per the Fifth Five Year Plan, the lop-sided industrial development of the State will be corrected by setting up more industrial units in the western and more under-developed section of the State.

#### STRUCTURE OF DEVELOPMENTAL MACHINERY

##### *Plan Formulation Machinery*

Much has been written about the formulation of National Plans.<sup>5</sup> However, it would be more appropriate here to consider the state-level planning processes with reference to industries.<sup>6</sup>

<sup>5</sup> See for example, Rakesh Hooja and Abhay Bhargava, "The Planning Experiment since Independence" in Ramesh K. Arora (ed.), *Administrative Change in India*, Aalekh, Jaipur, 1974. We are not attempting a description of national planning here.

<sup>6</sup> This description is developed from the arguments stated in (1) M. S. Mogra, "Planning Process in Rajasthan" in Ziauddin Khan, V.M. Sinha and K.D. Trivedi (ed.) *State Administrative in Rajasthan* (Asha, Jaipur, 1973 and (2) S. S. Tanwar, *Planning Administration at the State Level: A Case Study on Rajasthan* (Master's dissertation), Department of Public Administration, University of Rajasthan, Jaipur 1969.



The State Planning Department (see Chart I) fixes, on the basis of the national draft plan, the approach paper to the State Plan, and its reading of the varying requirements of State government departments, tentative targets and financial allocations for the industries department. It also suggests, after discussion with officials of the industries department and directorate (see Chart II) (and, perhaps, discussions in a development and planning committee) a list of schemes and projects to be initiated in the next plan-period.

This tentative information is sent to various District Collectors, Zila Parishad Secretaries, and Vikas Adhikaris (Block Development Officers) by the Industries Department after it has split it up on a district-wise and panchayat samiti-wise basis.

Various Panchayat meetings at Gram Panchayat, Panchayat Samiti and Zila Parishad level are held, some attended by District Industries Officers, and finally Panchayat Samiti plans are formulated and compiled into a District plan. In practice, the suggestions of the State Planning and Industries Departments are faithfully adhered to. (In some districts, District Planning Committees have also now been set up).

The Zila Parishad and District Planning Committee meetings are also attended by the Deputy District Development Officer and the District Plans are then sent up to Jaipur for compilation into a State Plan (with a section on industries) by the Planning Department.

Simultaneously another process has also been taking place. The field officers in the district have, upon orders, been sending a list of their needs for continuing projects and suggestions for new ones to the Collector and the directorate, and through it to the department of industries. This information is also forwarded to the State Planning Department for inclusion in the State Plan after senior-level officers' discussions.

Throughout the planning process, the Collector acts with the knowledge that he shall also bear responsibility for the implementation of his plan.<sup>7</sup>

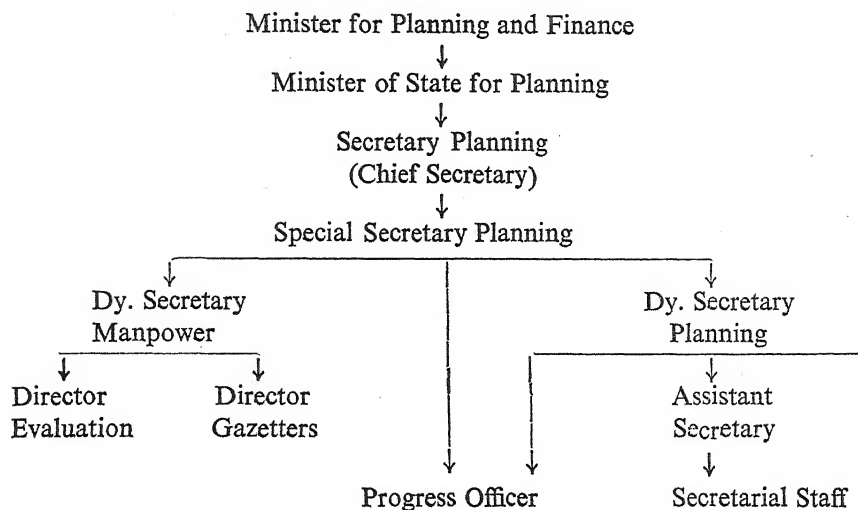
### *Plan Implementation Machinery*

The implementation of industrial plans is dependent upon the regional and district officers of the Directorate of Industries and on the Collector,

<sup>7</sup> For some more details about the process of Planning at the State level and the shortcomings of such a process see: (1) P. C. Mathur, "Multi-level Planning in Rajasthan" in *Voluntary Action*, Vol. VII, No. 4, July-August, 1966. (2) Rakesh Hooja, "District as a Planning Unit", *The Indian Journal of Public Administration*, special issue on Multi-level Planning, July-September, 1973, (3) D. K. Saxena, "Planning from Below in Rajasthan", *Political Science Review*, Vol. 1, No. 2, October, 1962; and (4) Rakesh Hooja, "District Planning Approaches", *Journal of Lal Bahadur Shastri National Academy of Administration*, No. 2, 1974 (in press).

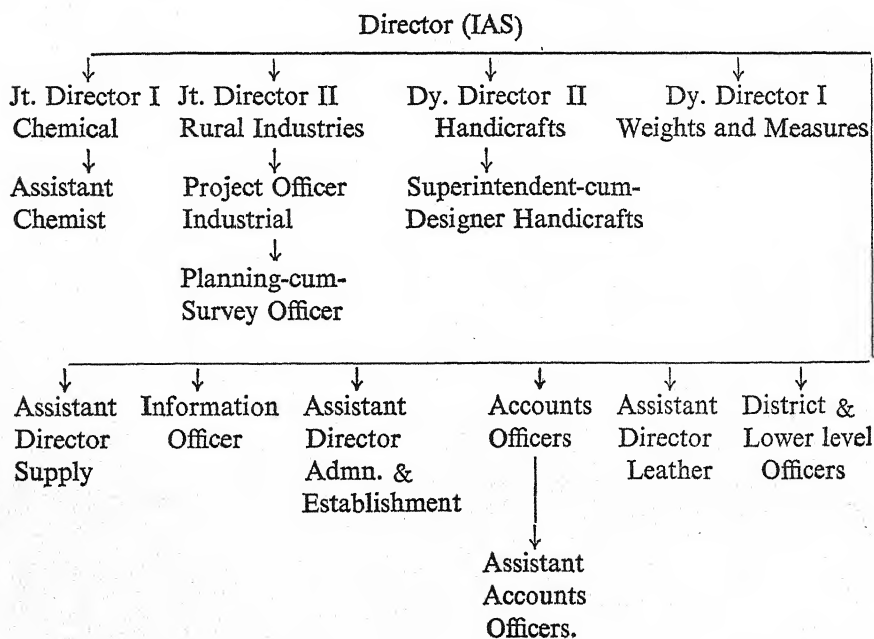
# CHART I

## Department of Planning



# CHART II

## Organizational Chart of Directorate of Industries



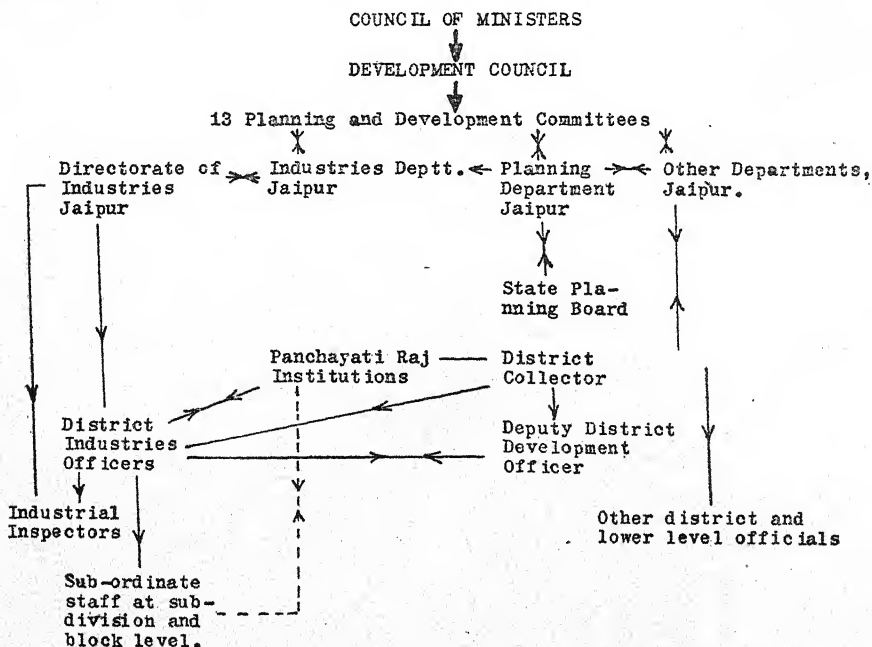
Deputy Development Officer and Panchayati Raj institutions<sup>8</sup> (see Chart III) as also on the Department of State Enterprises (for public sector activities). It would be most appropriate to limit ourselves here to the role of the Directorate of Industries and of the District Industries Officer.

The Directorate performs: (1) advisory functions: suggesting schemes for implementation and advising entrepreneurs regarding the location of industries and technical know-how regarding them, statistical information about raw material availability and market demand, and the specialized agencies like the Agro-Industries Corporation, Finance Corporation, Industrial and Mineral Development Corporation, Industrial Development Corporation, Small Industries Service Institute which may be of help to them; (2) developmental functions: assisting entrepreneurs in securing land, water

### CHART III

#### Communication Flow Chart of Plan Formulation and Implementational Machinery with reference to Industries

(Note: The bias is towards delineating field organizations and as such headquarters offices like that of Chief Secretary and Development Commissioner have not been spelt out fully).



<sup>8</sup> For details about the role of the Collector, Deputy Development Officer and Panchayat Bodies see: (1) C. P. Bhambhri, *Administration in India*, Vikas, Delhi, 1973; and (2) Rakesh Hooja, "The District As a Planning Unit—Style and Locus", *The Indian Journal of Public Administration*, July-October, 1973.

and power facilities, loans and subsidies, setting up Industrial Estates, assisting in quality improvement efforts and providing market outlets to entrepreneurs, encouraging Industrial Corporatives and itself providing loans; (3) supply functions: issuing permits, controlling the supply of, and even making available, scarce materials, like copper, zinc, lead and tin and even assisting industrial units to get imported materials; (4) providing technical assistance: conducting surveys to explore economic potentialities of areas, running a laboratory to serve entrepreneurs, preparing designs (for handicrafts) and project reports, providing training for workers and would-be entrepreneurs and making known quality control measures and techniques; (5) coordinating functions: coordinating provision of supplies, etc., and thus the functioning of state and centrally administered enterprises, of private entrepreneurs and chambers of commerce, providing them with liaison facilities *vis-a-vis* the State Government and the Ministry of Industrial Development at the Centre; and trying to make various regions industrially complementary to each other through coordinated sector-wise development; (6) supervisory functions: directing regional and district industries officers, ensuring absence of malpractices regarding weights and measures, making periodical checks of units to which it has supplied raw material and other facilities, and ensuring decent working conditions and the general welfare of labourers in various industrial units; and (7) miscellaneous functions: special relief and rehabilitation work in times of emergency and distress.<sup>9</sup>

The key officer in the field is the District Industries Officer<sup>10</sup> (DIO) who is assisted, among others, by industries inspectors and assistant inspectors. The Directorate of Industries has delegated responsibility for the development of industries in the District to him and thus he forms the link between individual entrepreneurs and the Director and even Secretary, Industries, at the same time, working in collaboration with the Collector, Deputy District Development Officer and Panchayat institutions to ensure integrated District development. The DIO collects information about existing industries, raw materials and other facilities available to the entrepreneurs in the District. He advises about suitable sites for setting up their units and approves of schemes for the establishment and development of small-scale industries and handicrafts in his District. He is also responsible for the development of large-scale industries but his attainments in this respect are negligible. He is associated with both the formulation and (after it is approved by the Planning Department) implementation of District Plans and can, with this end in view, recommend that the Directorate of Industries

<sup>9</sup> For details, see Kailash Kumar Puri, *The Directorate of Industries and Supplies, Jaipur, Rajasthan* (unpublished Masters dissertation, Department of Public Administration, University of Rajasthan) though, as is evident, the description is slightly dated.

<sup>10</sup> An interesting article in this respect is K. J. Christopher, "The New Role of the District Industries Officer", *The Indian Journal of Public Administration*, Vol. XII, No. 2, April-June, 1966.

conduct certain surveys. He is empowered to grant loans up to Rs. 5,000 each to industrial units and cooperatives and is also a member of the District Loan Committee headed by the Collector. Applications for higher loans have to be recommended by him to the Directorate of Industries and other financial institutions. The responsibility of loan recovery is also his, as is that of issuing permits for the supply of raw materials, ensuring the execution of quality control schemes, supervising the regulation of Weights and Measures, and Shop and Commercial Establishments, as well as the Firm Registration Acts, and the management of any scheme entrusted to him.

Other important field officials are the Project Officers of the Directorate of Industries who (assisted by Planning-cum-Survey Officers) conduct industrial surveys, and various Extension Officers who are either posted at block headquarters to assist the Panchayat Samiti-administered rural industries programmes or manage the various Industrial Estates set up by the government.

#### ECOLOGICAL CONSTRAINTS ON SOUND FUNCTIONING OF ADMINISTRATIVE STRUCTURE

The burden of both plan implementation and formulation naturally falls upon the civil service which in many respects finds itself limited in its capabilities. A major reason for this is the fact that the Indian personnel system, instead of being based on the principle of the least number of people doing the most amount of work in the best possible manner, is based upon the need to create more and more jobs to combat unemployment, thus overwhelming the system with numbers. Further, in the prevailing atmosphere of cynicism, corruption and nepotism, the danger of manipulation of promotions is great. To offset this, seniority (being an objective variable) becomes the major criterion for promotions, killing all incentive to doing hard work and exercising one's own initiative. In fact, since good work cannot be rewarded but bad work punished, not doing anything becomes a virtue. While this is regrettable what is worse is that ascriptive (as opposed to efficiency-oriented) criteria have become dominant and by and large personal goals now dominate organizational or societal goals inside all government organisations.

Moreover, government organisations<sup>11</sup> are bound by impersonal rules and regulations which may prove detrimental in specific cases. Bad ministerial guidance may paralyse them and the prevailing one-party dominant system may keep legislatures from controlling inept or corrupt Ministers. The

<sup>11</sup> S. C. Dube, "Bureaucracy and Development" in Finkle and Gable (ed.), *Political Development and Social Change*, 1966.

clerical staff, lacking in idealism, but aware of its numerical strength in a democratic system, may prove arrogant and uncooperative and thus hinder good administration. What is worse, however, is that prices rising faster than salaries may tempt some officers to become corrupt.

The inherent defects of the administrative system inherited from the British are further aggravated by another legacy of India's past: a tendency on the part of the people to look to government to do everything for them instead of trying to help themselves. (Perhaps this tendency is linked with our tradition of fatalism). This attitude about government is coupled with the belief that government property, being everyone's property, is no one's property. Thus not only is wilful destruction of government property treated lightly but people see nothing wrong in loss to government through inefficiency or the lack of a will to do work.

Another wrong tendency in present-day India (and one that most under-developed countries suffer from) is to politicize, ideologize, or personalise all issues. Thus decisions are not taken on the basis of economic, or administrative reasons but on political, even regional or parochial, grounds. As a reaction to this dominance of politics in developing societies some people also tend to decry everything political and start expecting miracles from the 'scientific and rational' economists. Both tendencies are wrong; decisions have to be based on both politics and economics.<sup>12</sup>

The preponderance of politics brings us to the question of socialism. The achievement of socialism can, by lessening friction in society and thus the frustrations of the deprived, strengthen the country's ability to combat its problems in a unified manner. However, many people tend to take a vulgar view of socialism, and thus in the name of socialism, they set forth the demands of their own class or group (which they claim is thoroughly exploited by the system) and claim privileges which they would deny others. This increasing tendency to claim to be the exploited and make demands has led to the spate of strikes which has so adversely affected India's development. (This does not mean to say that we believe all strikes to be so motivated and thus wrong. What we feel is that some politico-administrative machinery—like perhaps the system of initiative in Switzerland—has to be evolved to separate genuine demand-making from the spurious variety and thus to avoid the destructive modes of protest now prevailing.)

There are other cultural restraints to efficient developmental effort in India. Ours is a rural or peasant society where an industrial ethos and labour

<sup>12</sup> See Introductory Section of Rakesh Hooja & Abhay Bhargava, "The Planning Experiment Since Independence", *op. cit.*

force habits are both lacking<sup>13</sup>, fatalism is dominant. Social and geographic mobility, considered so essential for progress, is negligible here. Even our entrepreneurs do not have the proper orientation; they are not willing to take risks and thus indulge not in "productive capitalism", but in, what we choose to call, "speculative" or "middle-man-capitalism" only. And here also they prefer to use, not their own, but borrowed public money. In Rajasthan, another problem is to be faced. Its feudal heritage is still evident in the way in which government functions. Thus what in the modern, western idiom of doing things is considered corrupt, is considered natural in the traditional, feudal idiom which still survives (examples are the practices of *bakshish*, *nazrana* and *dali* which in the modern idiom are considered bribes). Thus many people consider bribery to be natural.

Other constraints are: (1) The fact that the heavy cost of elections and the existence of the mixed economy have resulted in a parallel black money economy, which further results in links between businessmen and clerks, businessmen and bureaucrats, and businessmen and political leaders (both governmental and opposition). Thus vested interests of business may affect India's development; (2) The mathematics of elections strengthens not only the businessman who has money, but also trade unions which possess votes in the form of members and can also thus at times override what is administratively correct; (3) No more are the people willing to sacrifice today in the hope of a better tomorrow for their children which does not seem to be in the offing;<sup>14</sup> (4) Our approach to planning has unfortunately been limited—economic growth isolated from social change and political development is impossible and, while physical targets and financial locations are set out in plans, little attention is paid to the need for things like labour problems, the electricity position, and the possibility of physical or man-made emergencies.

However, what is most dangerous today is a lack of a sense of responsibility and a disinclination to do hard work.

It is with this ecological framework in mind that India's performance in the developmental sphere has to be assessed.

#### CRITIQUE OF INDUSTRIALIZATION PROCESS IN RAJASTHAN

A critical review of the Industrial development in Rajasthan can be

<sup>13</sup> Some people claim that Hinduism is not conducive to industrial development, while Protestantism is.

<sup>14</sup> P. C. Mathur, "Prosperous Posterity Theory", *EPA Digest*, Jaipur, Annual Review 1961, where he points out that people asked to face current deprivations for a prosperous posterity may not be inclined to obey thus causing problems in democratic countries where sacrifice for a better tomorrow cannot be enforced.



made at two levels:

(1) We can attempt to pinpoint what is wrong with the theoretical structure of our policies—and the basic contradictions in both our objectives and the approach to achieve the objectives.

(2) Faults can be found with the specific policies followed keeping in mind both our basic objectives and our socio-political structure.

A basic contradiction appears in our system when we attempt to reconcile the maximisation of both private and social gains. We talk of 'planning for public good'—the growth of public enterprises—so that the public sector becomes the key sector in the economy, the regulation of monopoly and private enterprise, the slow easing out of foreign private capital—and at the same time permitting of a system of parliamentary democracy with costly elections—so that the rich and powerful have an unnecessarily strong hold upon the system. With such confusion in the background, the 1956 IPR is a masterpiece—with the true Indian genius of compromising between two irreconcilables.

We have talked of both growth and equity. Whenever our industrial growth rate falls—more licences are issued to the private sector. Because the monopoly houses have more contacts with the government, have more technical, financial and managerial experience at their command—they normally manage to corner the licences. Then what happens to all our talk about equity?

The *Dutt Committee Report*, 1969 clearly highlights the hogging of licences by the private sector (74 per cent of the licences) as against only 26 per cent issued to the public sector. Even inside the private sector—"73 large houses accounted for 55.5 per cent of the total proposed investment on machinery by the entire private corporate sector. Similarly, 70.4 per cent of the value of import of capital goods by the entire private corporate structure was accounted for by 73 large houses".

The situation in Rajasthan is not any different from the one demonstrated at the national level. A major share of all licences are accounted for by the Sahu Jains, J. K.'s, Birlas, Jhunjhunwalas, etc. A look at the investment made in the private sector as compared to the public sector clearly shows that the public sector is very small—and though its growth rate is faster—for a long time to come it is going to be in no position to ensure the success of our planned objectives.

Similarly, the much talked of 'joint sector' of the 1970 and 1972 Policy Resolutions has been left deliberately vague so that the concept can be moulded to defend the government's present policy.

Shri R. P. Dutt suggested the formation of a joint sector, since he felt that as the government and the government agencies were already financing private economic development, especially in the LSI sector—it would be preferable if the government saw to it that this money was utilised in a manner maximising social gain.

On the other hand, the private sector also welcoming the concept of a joint sector, stated in the much-quoted "Tata Memorandum". "A joint sector enterprise is intended to be a form of partnership between the private sector and the government in which the government participation of the capital will not be less than 26 per cent, the day-to-day management will normally be in the hands of the private sector partner." This is an admirably worded statement which clearly implies that while the government finances the industry, the policies are made by the private sector and the government can share the profits. Is this any different from 'state capitalism'? Where does the maximisation or even the consideration of public welfare come in?

The joint sector is so vacuous a concept and the government desires to centre its entire industrial policy around it. Any kind of decent industrial growth is obviously hampered with a structure like this to back it.<sup>15</sup>

We have thus seen that the theoretical structure underpinning our industrial strategy has been deliberately left vague—to be suitably altered as the situation demands. The actual performance of Rajasthan, therefore, must be judged rather charitably in view of the muddle-headed directives issued by the Government of India. Another theoretical critique of the IPR can be made on the basis that policy formulation in Rajasthan (at the theoretical level) is primarily at an economic level. There is no inclusions of any 'feasibility constraints' in planning.<sup>16</sup> Thus in actual implementation when ideological, political, social difficulties are encountered, we reach an impasse. For successful overall development, industrial policy formulation must not be interpreted narrowly but rather an inclusion of related sectors with all computation of externalities is desirable.<sup>17</sup>

We have managed substantial industrial growth during the planned era. It must, however, be noted that the growth rates look impressive 'partly because of the very poor base'.

<sup>15</sup> Aurobindo Ghose, "Control of Indian Monopoly," *Economic and Politics*, Weekly, June, 1974.

<sup>16</sup> Refer to A. K. Sen, *Feasibility Constraints in Planning*, ed. EAG Robinson, Economic Development in South Asia.

<sup>17</sup> For theory see, T. Scitovsky, "Two Concepts of Externalities," *Journal of Political Economy*, April 1954.

As per the recommendations of the Study Team—an Industrial Potential Survey—Rajasthan, 1972, certain sectors were highlighted. This has been noted and taken care of as the Fifth Year Five Approach Paper shows.

In our High and Medium Investment sector, we have: (a) 4 LSI in the public sector (Central); (b) 14 cotton textile units, 2 synthetic fibre plants, (c) 4 cement plants (22 lakh tonnes functioning)—3 (12 lakh tons/year) in progress and 3 (21 lakh tons/year) under consideration; (d) 10 vanaspati units either functioning or under consideration (there was only one in 1967); (e) Fertilizer plants at Ganganagar and Kota are already functioning and two more are under way. A big complex (250 crores) based on the rock phosphate deposits at Jhamarkotra is under planning; (f) 5 woollen mills at Jodhpur, Kota, Bikaner, Churu and Ladnu; (g) While important water meter, transmission tower plants, electricity meter plant, wagon factory, etc., are already functioning, 22 more LSI's in the engineering sector are likely to come up in the near future. Similarly, 20 industrial development areas have been set up and it is proposed to increase investment in the SSI and the Rural Handicrafts. The record of the government is not too unimpressive.

However, certain undesirable points need to be noted: (1) The phenomenal growth of the private sector especially LSI controlled by the large business houses is not helpful towards the maintenance of equity in the system. (2) The slow growth of employment potential and the rapid growth of unemployment<sup>18</sup> clearly shows that unemployment is on the rise. The choice of techniques strategy followed by the government regarding decisions taken about specific projects as well as for sectors needs considerable review and change. (3) The programmes for investment in industrial units noted in the approach paper to the Fifth Five Year Plan shows that while the RIMDC intends to invest in scooters and T.V. receiving sets, its plans for investing in the core sectors are very marginal (only one Mini Steel Plant is being considered). The faulty government policy for permitting the wastage of national resources in the non-crucial sectors, in light of the low saving and investment rates of the State are extremely damaging. Not only can we not afford to invest enough—we do not even invest in the right directions. (4) The government policies followed over the planning period have resulted in a concentration of industrial ventures in the Jaipur, Kota and Ajmer regions—while leaving other areas non-industrialised—creating regional anomalies inside the state.

Though we would not agree with either the view of Prof. Gadgil, who claims that we have been “planning without a policy frame”<sup>19</sup> or the

<sup>18</sup> As indicated by the work done by Kanta Ahuja, Lecturer, Economics, University of Rajasthan.

<sup>19</sup> EPW, Annual Number, February 1967.

view of Ashok Rudra<sup>20</sup>—that “the Indian government has a conscious policy of advocating that they will bring in socialism while they actually bring in capitalism”, we would tend to be rather critical of the timid and self-contradictory policy resolutions which the Government hands out every once in a while. Possibly they can do nothing else in a system like this.

#### SOME SPECIFIC EXAMPLES

An excellent idea of the desires of the government as regards the industrial development of Rajasthan can be had by studying the policy with respect to mineral development in the state.

##### (1) *Mica Industry*<sup>21</sup>

“The invidious state of the State’s rising industry is nowhere more typically exemplified than in the mica field. At present, all the mica produced in the State is despatched to Bihar in crude or cut form and most of the work of processing is done by buyers who derive all the profits from these operations.”

“The mica industry in Rajasthan bears a higher tax burden (a multiple one—Dead Rent, Royalties, Surface Rent, Sales Tax, Customs and Excise Duties Octrio and Cess) than Bihar. In spite of tremendous potential in the field, the Government only recently seems to have awakened to the growth and revenue possibilities.”

##### (2) *Rock Phosphate*

All surveys on the Industrial Potential of Rajasthan mention rock phosphate. Present realisation is nil. The major hindrance seems to be that mining rights in that area belong to an important politician’s son. Result—No major decision seems to have been taken for fear of either antagonising the politician or creating a scandal.

From the analysis of the mineral industry in Rajasthan, it becomes difficult to isolate a government policy which is adhered to. It appears that government decisions, even the major ones, are taken on a very *ad hoc* basis. The policy changes dramatically depending upon the minister in power, the party the government is dealing with, etc. The case of Bikaner gypsum clearly indicates that differing policies are followed with regard to the public sector *vis-a-vis* the private sector—and even in the private sector—the decision depends upon how powerful the industrialist is.<sup>22</sup>

<sup>20</sup> K.C. Nag Memorial lecture—St. Stephens College, March 1974.

<sup>21</sup> K. S. Mathur, *Mica Industry in Rajasthan*, 1969.

<sup>22</sup> *Rajasthan Patrika*, June 2, 1974.

## CONCLUSION AND SUGGESTIONS

(1) What is really required is a joint approach to planning. This not only cuts across different sectors, but also across different fields of study. A really broad outlook is desirable in policy formulation.

(2) Further use of the economic expertise available is desirable. Project evaluation studies for all major schemes should be conducted and published so that public criticism can be accounted for before undertaking any major project.

(3) The major declared objective of the government in a socialistic set-up is the provision of employment. A suitable choice-of-techniques policy should be formulated. An avoidance of over-capitalisation and progressive automation is desirable, though in no case, should efficiency and productivity be lost sight of. A brilliant case for a hierarchy of techniques has been made by Michael Kaleski,<sup>23</sup> which our planners and administrators would do well to read.

(4) In the provision of licences, the government should institute a policy that favours wage goods (necessities) and capital goods—infrastructural facilities. In no case, should valuable savings be misallocated into luxury goods (e.g., scooter factory at Alwar).

(5) A policy favouring balanced regional development is desirable. Though in the earlier stages, it pays to concentrate industries in areas where inputs are locally available, concentration of industries in the long run results in a complexity of problems which might be very much costlier to deal with later.

(6) It may be desirable to minimise the politicians, hand in dealing with economic problems.

(7) Marwaris are brilliant entrepreneurs outside Rajasthan. The percentage of operating capital in Rajasthan owned by Marwaris is less than in West Bengal, M.P., Gujarat and Bihar.<sup>24</sup>

(8) Efficient plan implementation needs specially trained men. Ordinary law-and-order and revenue-collection oriented administrators may not be able to deliver goods.

<sup>23</sup> "Theory of Growth in a Socialist Economy", 1969.

<sup>24</sup> A comprehensive scheme to attract Marwari talent and capital back to the home state is made by H. M. Mathur, 'Entrepreneurial functions and location of industry with special reference to Rajasthan'. It is because such a scheme of giving incentives is lacking that we face this problem.

(9) Provision should be made for better processing of non-governmental plan suggestions.

(10) Well-trained planning officers should be permanently located in Vikas Khand (block), sub-division and district headquarters to facilitate better "planning from below".<sup>25</sup>

Thus we see that while Rajasthan is sufficiently endowed as far as inputs for industrialisation go, a major change in approach is required for successful development of the State.

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<sup>25</sup> For other shortcomings of planning see:

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3. C. N. Bhalerao, "Changing Pattern of Development Administration in the District", *Indian Journal of Public Administration*, Vol. XII, No. 1, 1966.
4. For a detailed exposition of the drawbacks of a 'law and order' bureaucracy trying to implement centralised planning see D. R. Gadgil, "Planning and Administration", *Barve Memorial Lecture*, Delhi, March 6, 1968.
5. H. C. Riegir, "Bureaucracy and the Implementation of Economic Plans in India", *Indian Journal of Public Administration*, Vol. XIII, No. 1, 1967.
6. B. S. Minhas, *Hindustan Times*, 10, 11, 13 May, 1974.
7. Paul Streeten and Michael Lipton (ed.), *Crisis of Indian Planning: Economic Policy in the 1960*, London, O.U.P. 1972.
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16. Barua, Bedabrata.  
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## EDITORIAL

The development of administrative adequacy to ensure speedy and adequate implementation of developmental functions and Plan targets is an exceedingly delicate area in the study and practice of administration. The hiatus between Plan formulation and its performance even tends to generate tensions in the political system. This matter therefore merits continuing attention of our policymakers as well as students of administration. In the earlier issues, a number of articles dealing with different aspects of implementation of policies and programmes have appeared. In the present issue, Prof. Nitish De expresses the view point that we have been all along concentrating our attention on the details of the various plans, and have not attempted to evolve the type of administration necessary for implementing the Plans. Prof. De indicates in his article "the parameters of action so that concomitant change in Public Administration can be brought about with a view to increasing the capability of Plan implementation". Shri R. P. Khosla looks at the problem from a slightly different angle and analyses the qualities necessary in the administrator of the seventies and points out that the traditional skills of the administrator will have to be supplemented and reinforced by greater insight and expertise in the management and optimisation of resources.

Dr. Om Prakash's article on 'Corporate Sector and India's Industrial Development' continues the debate in the context of the theme of 'Administration of Industrial Policy' of our Special Number. We will like to express incidentally, our gratefulness for various appreciative references which we have received about the aforesaid issue of the Journal. According to Dr. Om Prakash some of the prevailing concepts about the corporate sector are unfounded and, in his objective analysis of the problem, he details the remedies which, in his opinion, are necessary for accelerating India's industrial development. Prof. Muttalib, in his article, deals with the so-called conflict between the generalist and the specialist and concludes that both are necessary and should work together in a spirit of mutuality and cooperation. He has attempted to view the whole problem in a wider focus and tried to reconcile the differing standpoints in this vexatious controversy. As he observes, "the generalist and the specialist along with the elected functionary constitute the 'trimurthi' of development administration". We expect to publish a few articles with constructive approach on this emotive subject.

The question whether the bureaucrat plays any role and how, in the realms of policymaking is a subject for fruitful research. Prof. McLaren

studies the working of an international organisation, viz., Inter-Governmental Maritime Consultative Organization (IMCO), to find out the part played by the secretariat in the evolution of policy. His analysis is perceptive and it is for consideration as to what extent his methodology and approach can be applied to the study of any sector on the national scene. Prof. Rosenbloom writes on 'Public Employment and the Constitution: Recent Judicial Developments in U.S.A.' We expect to publish similar articles about the rights and privileges of the public employees in India in the light of important judicial pronouncements. Dr. R. B. Jain, in his article, deals with the Politicization of the Bureaucracy. He points out how the concept of neutrality of Bureaucracy has broken down and suggests a framework for the measurement of the nature and degree of politicization of the bureaucracy. We hope that our readers will like to react to Dr. Jain's approach and exposition of a sensitive administrative aspect of considerable operational significance.

As has been our practice, we have included a number of research-based articles in this issue. We have already referred to Prof. McLaren's article. Shri Minocha has based his article on an empirical study carried out by him about the attitudes of the various categories of workers of Hindustan Steel Limited about the personnel policies. This has a direct bearing on the morale and motivation of personnel in public sector.

The contributions of Dr. Kuldeep Mathur, Dr. Mohit Bhattacharya and Shri Sudipto Mundle are of complementary nature. While the organisational, structural, procedural, attitudinal and interpersonal relationships at various levels in the governmental system receive the attention of Dr. Mathur and Dr. Bhattacharya, Shri Mundle brings to bear an econometrician's approach to the mobilisation and utilisation of resources in programme implementation. The articles are based on field studies with a view to assess as to how the administration responds to the imperatives of a situation of drought. They identify and conceptualise the factors of operational resilience while the administration is faced with an emergency.

From this issue onwards, we reintroduce a section on 'Book Notes', where short notices of certain books will be included so that we can ensure a broader coverage of publications on various subjects.

We wish our readers a Happy New Year.

—Editor



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## PUBLIC ADMINISTRATION AND PLAN IMPLEMENTATION\*

Nitish R. De

*"Founding itself upon love, humility and faith, dialogue becomes a horizontal relationship of which mutual trust between the participants is the logical consequence. . . true dialogue cannot exist unless it involves critical thinking. . . thinking which perceives reality as process and transformation. . . thinking which does not separate itself from action, but consistently immerses itself in temporality without fear of the risks involved."*

—Paulo Freire<sup>1</sup>

*"India's forte is one of crisis management. Instincts of its leadership are to cope, rather than innovate, and to work within an existing framework not only of institutions but of ideas as well."*

—Myron Weiner<sup>2</sup>

THIS paper will be in two parts. The first part will be an assessment of the current status of Public Administration in relation to Plan implementation, raising some of the obvious issues. The second part will deal with

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\*An earlier version of the paper was presented to a Seminar on Plan Implementation in Madras on April 13-14, 1974.

<sup>1</sup> Paulo Freire, *Pedagogy of the Oppressed*, 1970, Herder and Herder, New York.

<sup>2</sup> M. V. Kamath, "India Has Not Done Badly At All: MIT Professor's Analysis", *The Times of India*, Dec. 10, 1973, New Delhi.

certain parameters of action so that concomitant changes in Public Administration can be brought about with a view to increasing the capability of Plan implementation.

On the whole, a systems approach will be maintained so that diagnostic data, policy planning and policy implementation are perceived as an ongoing process and not as discrete elements merely calling for an integrative machinery. A point will be taken that coordination is often perceived as a supreme need arising out of a mechanical conception of the inter-relationships of various complex forces. As an alternative, a premise will be maintained that integration of various complex socio-economic and political variables is not only a matter of technology of administration but also a matter of management of attitude, values and authentic behaviour. A whole ocean of techniques will not be adequate, it is believed, to ensure the full implementation of the Fifth Plan programmes just as the waters of the Arabian Sea could not have effaced the sense of guilt from the heart of Lady Macbeth consequent upon the murder of the King. An essential point of the paper will be that commitment to the Plan objectives is a process, subtler and deeper than the knowledge of techniques and procedures.

#### I. THE CURRENT REALITY

There are four issues to which reference will be made:

(1) The Draft Fifth Plan has nine chapters in Part I and fifteen in Part II. None of these chapters refers to the public administration machinery either in the Centre or the states. One does not get an insight as to how the working role of the Department of Personnel and Administrative Reforms will be revitalised or reoriented in the light of the requirements of the Plan objectives. Nor does one know as to how the working tradition of the Cabinet Secretariat will be restructured with a view to bringing about a convergence between its working and the Plan objectives. Similarly, one searches in vain in the Plan document for an emerging role, if any, for the Chief Secretary of a State Government.

One may indeed refer to, in rebuttal, the work done by the Administrative Reforms Commission and the gradual process that has been initiated to bring about reforms in the administrative machinery. One may also mention what some of the State Governments have been doing by way of setting up Administrative Reforms Committees.

The essential point, however, is that the fountain head of the complex gamut of the administrative machinery has been kept outside the purview of the Plan document. The implication is that while machinery other than the

civil administration will need to be looked at for the purpose of success of the Plan, it will itself remain untouched in terms of stock-taking, reflection, and consequent change. While change is the core theme of the planning process, public administration by implication can remain immutable. It seems that this incongruence may become a stumbling block in Plan implementation.

The consequence is obvious. The elites of the public administration are thus rendered free to look at other agencies and find out what their flaws and failures are. They have no compulsion to look at their own houses. Delays in implementing various projects are well-known complaints. Attempts are being made to streamline the decision-making process in such a way that the delays can be avoided. But no worthwhile attempt is being made to short-circuit the delaying processes in various ministries of the government. While some attempts are being made in some of the economic ministries such as, Heavy Industry, the old conventions and culture doggedly persist in the non-economic ministries, particularly the social ministries. There is no conscious effort at monitoring the delays in some of these ministries even though the officials here are expected to ensure that the various field organisations responsible to the ministries do operate effectively. This is an obvious contradiction.

How expensive the inabilities of the ministries in scrutinising their own operations can be, is cited here:

"... When a decision was taken to set up the Madras Refinery Project, it was also decided that Madras Port would need to be enlarged to accommodate 70,000 dwt. crude oil tankers. This tanker size was taken into account without working out the economics of the Madras Refinery. With the Refinery under the administration of one ministry and the Madras Port Trust under another... expert and effective coordination of the two parts of the project became necessary. As it turned out, the ministry of... was unable to ensure that the port expansion proceeded so as to synchronise with the completion of the Madras Refinery.... The Refinery was commissioned in June 1969 and the expansion of the port was still incomplete in December 1972. The consequential loss to the Refinery, obliged to run at reduced throughput and pay higher freight rates on account of the use of smaller size tankers, is about Rs. 17 crores up to March 1972..." (quoted from an unpublished report.)

Yet another consequence is a more serious one. Paul Appleby, on the basis of his studies of the administrative culture in India, has repeatedly mentioned about the role of the audit culture. His diagnosis as well as warnings seem to have fallen on deaf ears. No doubt, some marginal changes

have been made but the basic flaw has remained. We may quote from Appleby's report<sup>3</sup>.

"The functions of the Comptroller and Auditor-General in India are in large measure an inheritance from the colonial rule. . . the Comptroller and Auditor-General is today a primary cause of a widespread and paralysing unwillingness to decide and to act.

"This repressive and negative influence is in considerable part indirect, impinging on the bureaucracy by way of Parliament because of the exaggerated and unselective attention given by Parliament to the petty exceptions and the inflated *pretensions built around the pedestrian function of audit*. . . What special competence for appraising objectives and appraising administrative performance in general has the Comptroller and Auditor-General? What is Cabinet for, what is the Prime Minister for, what is Parliament for, what are the individual ministers for, what is the secretariat for and what is bureaucracy for? . . . Too many of his reports are mere substitutions of hindsight for the kind of judgement possible and necessary and proper at the time of action. Too many merely raise questions that are really questions of differences in judgement.

"... The Comptroller and Auditor-General's function is not really a very important one. Auditors do not know and cannot be expected to know, very much about good administration. . . . What auditors know is auditing—which is not administrative; it is necessary but highly pedestrian function, with a narrow perspective and very limited usefulness. . . . Audit reports take Parliamentary attention on little things. This demeans the Parliament."<sup>3</sup>

The implications of the unwillingness to link up the compulsions of the planning process with the requisite changes in public administration can indeed become a serious problem as highlighted recently by Jha analysing the data that are available. Jha makes the following points:

"The least understood today is the relationship between the growth in unproductive expenditure and mounting unemployment. Politicians and officials react to any suggestions that employment in the bureaucracy should be curtailed by raising the bogey of unemployment. What they fail to realise is that the creation of one sinecure in the bureaucracy or for that matter, anywhere else in the economy deprives at least ten people of productive employment over a period of roughly three decades....

<sup>3</sup> Paul Appleby, *Re-examination of India's Administration Systems*, 1965, Government of India Press, New Delhi.

"It is a sobering thought that if the Central and State governments had created three million less jobs in the bureaucracy, their annual savings today would have been sufficient to generate thirty million extra jobs over thirty years, or a million extra jobs every year."<sup>4</sup>

All in all, one major weakness in the Plan document is the neglect of attention to the urgent and long overdue administrative innovations in the very citadel of development administration—central and state government machinery including the role of the audit functionaries.

(2) The second issue of current relevance is the problem of values and attitudes of the public administrators. It would be fair to include the higher as well as the lower echelons of the government administration in this category, irrespective of whether they are generalists or technocrats including educationists.

That the Harijans, despite what Mahatma Gandhi sought to do to alleviate their misery—psychological as well as physical—have not been able to improve their lot in an appreciable measure during the four Plans is well-known. Psychological humiliation apart, physical pain and torture to which the Harijans have been subjected are fairly well known. The case of Keezhavenmani's death by burning is well-known. Similarly, the status of the Harijans in U.P. has been documented by Juyal<sup>5</sup>. Despite the fact that Uttar Pradesh has 21.23 per cent of its population belonging to the Harijan caste, their conditions are no better here compared to other states. One reason for continuation of the depressed conditions of the Harijans is obviously the attitude of the ruling elite. The subtlety of this attitude is obvious from a report published in a Hindi Daily from Banaras. The report reads as follows:

"Dhobi (Jaunpur)—June 28. Caste tensions are increasing in the rural areas following the stoppage of work by the Harijans for other castes. Harijans have boycotted cutting of navel strings and disposing off dead cattle. They have even raised a demand for increase in the wages of ploughing and other kinds of agricultural work. The Harijan leaders are raising a storm of casteism by misguiding the Harijans in the villages which may lead to dangerous consequences."

Similarly, a survey of Primary Health Centres (PHC) in the states of Andhra Pradesh, Bihar, Gujarat, Kerala, Maharashtra, Tamil Nadu,

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<sup>4</sup> Prem Shankar Jha, "Too Many Unproductive Jobs: Core of the Economic Crisis", *The Times of India*, Dec. 10, 1973, New Delhi.

<sup>5</sup> Juyal, "Twilight World of Harijans in U. P.," *New Wave*, Dec. 30, 1972, New Delhi.

Karnataka, Rajasthan, Uttar Pradesh and West Bengal brings about this conclusion from the researcher :

"On the whole, the dispensary projects a very unflattering image. Discrimination against the poor and the oppressed, poor quality of medicines (only red water), lack of medicines, overcrowd and long wait, nepotism, bribery, and indifferent and often rude behaviour of the staff are some of the charges that have been levelled against most of the dispensaries. Complaints about medicines and overcrowding and long wait are made even against the best of the PHC's studied."<sup>6</sup>

The essential point emanating from these and many other experiences is that the administrative elite is essentially bound by what Joshi has called "social parasitism".<sup>7</sup> Social parasitism is an attitudinal problem based on an economic premise. The economic premise is that the surplus that is created out of non-productive, circulatory functions is more significant than the basic productive function itself. In another context, the implication of the culture of social parasitism has been described.<sup>8</sup>

- (a) Non-productive phenomena, such as gold and precious stone smuggling and hoarding, hoarding of essential foodgrain items, conspicuous consumption, individualised services, sweat-labour based secondary comforts, etc., do receive a premium. Social values in the garb of "an act of wisdom" as in the case of hoarding and "a shining example of success in life" as in the case of conspicuous consumption acquire legitimacy in our behavioural norms. Such forms of parasitism will have the "Gresham Law" effect on the productive culture. The "sanskritisation" effect of parasitism thus takes hold;
- (b) Black money and corruption will remain a major force in the determination of relevant behaviour, including key level decision-making role, thereby weakening such processes of decision-making as involve productive parameters;
- (c) Members of the community involved in production activities will carry on with their responsibilities in the tradition of parasitism manifested in the forms of *competitive economism and complementary economism*. In other words, the internalised values of parasitism will gain entry and then ascendancy in the production culture. In this sense, no fundamental distinction will be maintained between social goods and services and those for private gains;

<sup>6</sup> D. Banerji, "Healthy Behaviour of Rural Populations: Impact of Rural Health Services", *Economic and Political Weekly*, Dec. 22, 1973, Bombay.

<sup>7</sup> P. C. Joshi, "The Cultural Dimension of Economic Development: Past Experience and Present Dilemmas", Draft Paper, 1972, Institute of Economic Growth, Delhi.

<sup>8</sup> Nitish R. De, "Social Context of Organisation Development: Man-Work Environment Nexus", Draft Paper, 1973, Indian Institute of Management, Calcutta.

- (d) There will develop a yawning chasm between the public posture and the private faith, between the stated objective and the reality, between the creed and the deed generating a climate of mass inauthenticity and abortion of political morality;
- (e) The reaction against the consequent erosion of national self-esteem and promiscuity in national identity will develop into mass alienation in the young generation—either in the form of retreatist subculture, or angry backlash, or anguished martyrdom, or docile conformism, or perhaps a combination of some of these, thereby fostering the values of “lumpenism”;
- (f) As an apparent reaction to the economic stagnancy and the hypocrisy of existence that is inherent in the culture of social parasitism, obvious patriotic responses will generate in the cause of production orientation. These indignant votaries of non-parasitic culture will seek the commanding heights of decision-making roles for themselves so that the vantage ground of parasitism can be maintained; and
- (g) The “hard core” of productive culture will get fixated, as a reaction against parasitism, at task-orientation levels with cynical concern for human values and esteem for fellow human beings. Some of them may seek retreat in compensatory activities, such as “research” and non-collaborative work, and join the “braindrain” club. Performance orientation may become a caricature of economic progress with an empty moral and ethical shell.

It is, in this context, that one will view the three paragraphs on public participation and commitment in the chapter on Plan Implementation in the Draft Plan. Reference to the public is to various representative institutions, local bodies and academic institutions. Participation of the people in the planning process in the form of more direct and vigorous involvement is missing. It is not as if adequate instruments of vigorous and meaningful participation of the people are not available. Those who are familiar with Paulo Freire's work in Brazil are aware of the immense potential that exists in a polyarchical participation of the people and their leaders, both playing the role of actors in a change process.<sup>9</sup>

A number of studies on Indian Administration have come to the conclusion that it essentially represents a culture of elitism. Pai Panandiker<sup>10</sup> maintains that while there is some behavioural flexibility in the bureaucracies at

<sup>9</sup> Maria, Mies, “Paulo Freire's Method of Education, Conscientisation in Latin America”, *Economic and Political Weekly*, Sept. 29, 1973, Bombay.

<sup>10</sup> V. A. Pai Panandiker, “Bureaucracy in India: An Empirical Study”, *IJPA*, Vol. XVII, No. 2 (April-June), 1971, New Delhi.



the field level, such as in agriculture, bureaucracies in the office involving regulatory and directional functions are essentially structurally more rigid and behaviourally less flexible. It is precisely at this level that the key decisions are made and the parameters for action are determined.

Ali Ashraf, in his study of rural development in U.P., has come to the following conclusion:

"There is little doubt that bureaucratic organisations develop a tendency towards centralisation and rigidity and demand conformity from their members. The feedback process does not function well and this is especially true in the Indian context where normal bureaucratic tendencies are further reinforced by cultural values of hierarchy and superior-subordinate social relationships. Thus, the bureaucracy has little capacity to improve itself by learning from its errors. There is indeed no effective way for the bureaucrat to learn of his errors, and even if such knowledge of internal weakness was available, there would be hardly any will to modify its organisation or behaviour."<sup>11</sup>

Subramaniam comes to the following conclusion at the end of his study of the Civil Services in India:

"It is clear that all these services are drawn in common from the urban salaried and professional middle class of India to the tune of 80 per cent or over."<sup>12</sup>

A significant aspect of social parasitic culture can very well be a type of bureaucratic operation which has been labelled by Presthus as "welfare bureaucracy"<sup>13</sup> as practised in Turkey. The welfare premises centre around certain benefits, privileges and augmentation of some tradition-bound orientations which foster and sustain the culture of non-achievement and non-production. The seniority principle, loyalties on the basis of caste, region and language, concern for superficial measures of effort as opposed to performance and an elastic concept of time, are some of the characteristics of the administrative milieu that is suffered, if not supported, by the administrative elite.

It thus appears that the administrative elite in India is on the whole of an urban middle class background, given to the culture of social parasitism

<sup>11</sup> Ali Ashraf, "Bureaucracy Leadership and Rural Development in Uttar Pradesh," *Indian J. of Politics*, Vol V, No. 2, 1971.

<sup>12</sup> V. Subramaniam, *Social Background of India's Administrators*, Publications Division, Ministry of Information & Broadcasting, 1971, New Delhi.

<sup>13</sup> R. V. Presthus, "Weberian vs. Welfare Bureaucracy in Traditional Society", *Administrative Science Quarterly*, June, 1961.

in accordance with which non-productive culture is the *sine qua non* of elegance and performance. This attitude appears to be another major stumbling block in the Plan Implementation process, particularly in respect of the production objectives as well as the social programmes of change.

(3) The Draft Fifth Plan can be credited with certain improvements. The chapter on Plan Implementation is comprehensive and in some respects it has gone into operational details which were missing in the earlier Plan documents. There is requisite emphasis on monitoring and evaluation organisation and utilisation of certain management techniques, such as project evaluation, critical path method and other quantitative management techniques of proved utility.

In particular, implementation of agricultural programmes refers to the structure of the decision-making machinery in the ministry in some detail which is lacking in respect of other programmes and ministries. The administrative structure incorporates the role of the technical heads in the decision-making process not as staff specialists as is very often the case, but as substantive decision-makers. The role of the technical department in the states and those of the subject-matter specialists in the area development programmes have received particular attention. That the traditional organisational design will be inadequate in dealing with the area development programmes has been recognised.

To quote from the Draft document:

"It is proposed that in the area development schemes of the nature of command area development and drought-prone area schemes and any such similar schemes which may be worked out in the tribal or backward areas, an area development authority is constituted by the government which has got administrative and financial powers duly seconded to it by the government and which controls the staff of all the disciplines which are important for the field programmes."

Although not wholly, this statement partly recognises the need for an integrated agency, utilising some of the insights of a matrix organisation.

These innovative ideas, however incomplete, are totally missing in the section on Railways. While one finds certain statistical information in the smaller section on Railways (in the Plan Implementation chapter), one looks in vain for the administrative innovations and personnel policies which are long overdue in the basic transport system of the country.

As already mentioned, monitoring and evaluation organisation (MEO) has received welcome attention in the implementation programme. A

nucleus of MEO has been created in the Planning Commission with professional competence and a desire to succeed. This group, though small, has already started working on pre-requisites of monitoring rather than preparing itself for audit type evaluation long after the event has occurred. It seems that this is a positive augury, however limited, for the Fifth Plan.

(4) There seems to persist the basic dichotomy between the planning process and the implementation process, even though there is the universal recognition that implementation seems to be proverbially the weak link in the Indian planning process. It appears that there is a sense of resignation to the inevitability of the duality of the planning process and the implementation process of the variety that has been in existence in India for many decades. It is necessary to appreciate that the Plan objectives are required to be examined in terms of the *stated* objectives, *real* objectives and *legitimate* objectives<sup>14</sup>. The stated objectives, incidentally, are always the desirable ones and a statement of these issues is probably the easiest. The real objectives are those which are sought to be implemented by those who are concerned with the process. The legitimacy of an objective—whether stated or real—depends upon the social relevance of the objective. It seems that in India there has been a closer concordance between the real objective and its illegitimacy and, in the process, its distance from the stated objective. While an organised trading community, to provide an example, may become most articulate in its statement of the social responsibilities of business, the “get-rich-quick activities” are matched only by the illegitimate machinations that are undertaken, taking advantage of the growing demand for a variety of essential commodities.

Similarly, the social parasitism of the administrative elite has been able to maintain a distinction between the stated objectives of the Indian Constitution and the successive Plan objectives on the one hand and the execution of these objectives on the other. Whether it is the implementation of the various tax laws or the provisions of Land Reforms Legislation or the execution of the social welfare measures for the tribals or the depressed classes, one inevitably confronts the ever-widening schism between the profession and the practice. One also cannot deny the over-active compromises of the political wing of the Indian elite that accentuates the hiatus between the stated objectives and the real objectives.

It seems that the planning process is usually concerned with the stated objectives and an elaboration of the same including *inter se* priorities of these objectives. The criteria for measurement to ensure the fulfilment of the stated objectives are wholly or predominantly ignored as an integral part of the planning process. The implementation process, on the other hand, is usually

<sup>14</sup> C. West Churchman, *The Systems Approach*, 1968, Dale Publishing, New York.

concerned with the real objectives. Real objectives are those which are actually implemented utilising the administrative authority. While, to give an example, augmentation of production is consistently set as a desirable objective, the various administrative decisions like the linkage of the annual bonus payment to profits and many other similar decisions go against the grain of the productive culture. Many a leisure-time comfort that is provided to the managerial elite in an industrial system may indeed be an integral part of welfare bureaucracy, but not necessarily a contribution to production ethos. The chasm between the stated objectives and the real objectives is thus the chasm between the planning process and the implementation process.

This summary survey is an assessment of some of the problems involved in Plan Implementation in the context of the reality of Public Administration.

## II. SOME ELEMENTS OF ACTION PARAMETERS

Should we accept the diagnostic premises made in the earlier section, it will become somewhat obvious that certain infirmities in the administrative culture would need to be attended to with a view to effectively implementing the Plan objectives. Three such infirmities are listed below:

- (a) The elitist bias towards non-productive culture and a propensity towards "welfare bureaucracy" cannot sustain the Plan implementation programme.
- (b) The values of elitism are enshrined in a supercilious attitude towards, if not an outright prejudice against the down-trodden, particularly the ethnic poor, which makes the administrative machinery distinctly insensitive to public needs and even hostile to public criticism. The voice that is often raised about anonymous petitions against members of administrative elites and the touchiness that is displayed against public criticism voiced in the national and state legislatures are indicative of the lack of concern for fellow human beings' sentiments. Their sentiments and frustrations are ignored along with the factual part of allegations which could very well be exaggerated and inaccurate.
- (c) The elitist bias towards profit motive, particularly relevant to private trade and industry, is yet another aspect of the dominating culture that has stood between the societal objectives of the Plan and their translation into action. Bauer and Fenn have referred to the American phenomenon in these words, while discussing corporate social audit:

"With the industrial revolution came the concept that competition should serve as the regulator and determinant of proper business

conduct; if you survived and prospered, you were, by definition, doing 'the right thing', and 'in the right way'. The appeal of this view was and is compelling; it lives on today in the often expressed conviction that 'the cash register is the final arbiter of our performance. If the customer does not like what we are doing, we find it out soon enough'. 'Safety does not sell', said the pre-Nader automobile manufacturer. 'We are giving the public what it wants', says the broadcasting executive."<sup>15</sup>

On the positive plane, what needs to be done is to establish a culture of performance and achievement, as distinct from the culture of acquisition. It is apparent that if our records of Plan implementation are poor, it is an admission of our poor performance-orientation. This orientation is required to be established and strengthened by a series of positive steps as a reinforcement to the corps of public administrators and not by action of punitive measures and negatively-oriented control devices as is the case with audit culture.

The Action Plan will be devoted to the resolution of these issues:

(1) The various ministries in Delhi and their counterparts in the states will be required to critically examine their rules and procedures and systems of work. While addressing the 28th Annual Convention of Oil Technologists' Association of India two months before his death, S. Mohan Kumaramangalam had this to say about decision-making in the Government:

"Suppose Rourkela wants to have a new coke oven battery... The Rourkela gentleman will discuss with his own G.S., A.G.S., Coke Oven Superintendent and so on... a feasibility report will be commissioned by the CEDB... the best minds will work on it... Finally, after it has all been cooked properly, it will be brought before the Board of Hindustan Steel and then it will be sent up to the Government.

"The Government naturally means the Secretary. The Secretary will mark it to the Joint Secretary; the Joint Secretary will mark it to the Deputy Secretary... to the Section Head... the Section Head is the foundation of everything. Without him, Government cannot function. The Section Head looks at this big document... and prepares a self-contained note... he does not know one end of a blast furnace from another or a coke oven... (but) at the end of it all, he has to make a recommendation.

"Then again it rises to the surface... In between, probably the Joint Secretary may add four or five lines giving reasons why it should go

<sup>15</sup> Bauer and Fenn, *The Corporate Social Audit*, Russell Sage Foundation, 1972, New York.

to the technical wing. . . . From there when it reaches the Secretary, he chits it saying let it go to the technical wing. . . what do you expect this young engineer (in the technical wing), a very good quality young man, to do? . . . In order to justify the fact that he is there. . . he asks for clarifications. . . and the Secretary reads it. He is not a technologist and naturally he cannot say that the clarifications are not necessary. So he puts it ultimately to the Minister.

"This is the way the Government will operate. . . . It is not the wrongness of the individuals; it is the wrongness inherent in the system. . . . In Government, the magic word is *sanctions*. . . . The basic difference between administration on the one hand in terms of civil service administration, and administration on the other in terms of industry is that. . . (one) is rule-oriented and (the other) is result-oriented. . . . What counts ultimately is what results you get. . . ." <sup>16</sup>

Needless to point out that a body of the type of the Administrative Reforms Commission will, doubtless, be able to amass enormous data on the strength of which it can recommend certain steps. Whereas such commissions are hallowed by the tradition of British Parliamentary democratic system innovated in an era of comparative unchangeability, the present state of Indian reality is a different picture altogether. It will indeed be necessary to bring about vigour, determination and unorthodoxy of approach to critically submit the work culture of the decision-making apparatus to a scrutiny. What will be relevant are short reports for action unlike the reports emanating from prolonged deliberations. The essential purpose of such drastic reorganisation of work culture will be to generate a culture of self-renewal in the various ministries in Delhi. John Gardner laid down five rules which might become the cornerstone of the self-renewing process:

"The first rule is that the organisation must have an effective programme for the recruitment and development of talent.

"The second rule for the organisation capable of continuous renewal is that it must be a hospitable environment for the individual.

"The third rule is that organisation must have built-in provisions for self-criticism.

"The fourth rule is that there must be fluidity in the internal structure.

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<sup>16</sup> M. Kumaramangalam, "Confessions of a Minister", *Science Today*, April, 1974, Bombay.



"The fifth rule is that the organisation must have some means of combating the process by which men become prisoners of their procedures."<sup>17</sup>

Given the weight of tradition that sustains the anti-work or non-work culture in the halls of decision-making in the metropolises, it may be desirable that either the Prime Minister takes upon herself the responsibility of administrative innovation or she puts someone in charge of it who is known for his task orientation and the ability to *preact* even in a hostile climate. To fight organisational "dry-rot" is the essence of requisite action in making public administration responsive to the demands of the planning process. The ultimate repository of government—the ministries—which operate on the written words in files will need to be exposed to reform in terms of tasks, targets, quality of decisions, timeliness and the ability to help the field organisations.

(2) The controversy involving the generalists and the specialists will need to be resolved. The Prime Minister, while inaugurating the Indian Institute of Management at Bangalore in October 1973 has made this statement:

"Our experience is that the generalists and the specialists both tend to be somewhat bureaucratic when they come into the system. The specialists are not more arduous than the generalists when suggesting new approaches to administration, new ways of getting things done and new methods of economy.... Both are subjected to human feelings, feuds, hatred, jealousies and narrow-mindedness and these are not diminished in new institutions headed by specialists... the important issue is to evolve a system by which we are able to get the best out of our personnel and to ensure that the entire administration can... be levelled so that it comes in direct touch with people... with a sense of service and understanding. We do not want more officers but a competent and creative human being."

The culture of competence and humanness is certainly an essential requisite. Such a culture calls for a redefinition of the concept of efficiency. In a work-shy culture, a public servant wedded to the techniques of efficiency may receive high encomium. But working with complex human systems, his effectiveness may be blunted by his over-simplistic assumptions about human beings. He may adopt a posture of arrogance and/or wisdom and this will undermine the commitment of his subordinates and the people, without whose willing cooperation no project can be effectively implemented. Such votaries of efficiency are usually given to a "black-box" concept of human nature and human motivation.

<sup>17</sup> J. W. Gardner, "How to Prevent to Organisational Dry-Rot?" *Harper's*, October, 1965.



In order to operationalise Mrs. Gandhi's concept of competence and humanness, one will need to begin with a new concept of administrative values. An administration leader will need to internalise the values of "adaptability" and "flexibility"<sup>18</sup> which will enable him to change roles whenever that is needed and to cope with unpredictable situations when these will confront him.

The administrative reward system will need to be geared to the task of identifying competent administration leaders who possess in requisite measure the values of adaptability and flexibility. Performance-oriented appraisal system, to give one example, will be able to put the nail to the coffin of bureaucracy-technocracy debate.

(3) Performance orientation will call for a major revision of the roles of the government audit department, the finance ministry as well as the finance departments of the state governments. While post audit of actions and decisions is necessary for public services and public sector industries, the essentiality of such a function does not lie in creating a climate of inaction or hesitant, low-key action on the part of public functionary. On the contrary, the audit objective should be to foster a sustained performance culture and not to stultify it by fear psychosis. Today, the audit department derives its status from its constitutional sanction to "tick-off" any authority other than the Parliament. Its immunity extends to the privilege that no one scrutinises its contribution to the culture of delays and despondency, and, in particular, the obstacle it sets to initiative, drive and innovativeness in public administration. It will be necessary to substitute the culture of "sanctions" by a culture of "performance". This prescription does not imply that failures should be slurred over nor does it mean that the Central Bureau of Investigation be abolished. What it means is that the audit department should develop a composite of performance criteria to audit various governmental activities so that culture of results gets stabilised. On the strength of its accumulated experience, the audit department should be encouraged to initiate suggestions as to the extent of the obsolescence of various rules and procedures so that appropriate corrective measures can be taken without fuss or delay.

Similarly, the finance ministry should be able to exercise scrutiny and fuller review of various proposals and projects before it and its associated bodies can accord their sanction but, thereafter, the executive agency should not be required to refer a particular item of expenditure for a second-time approval. It is one thing to lay down functional norms for incurring expenditure and it is quite another to operate on the premise that the finance ministry represents the government's conscience and the accumulated wisdom of public propriety.

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<sup>18</sup> P. E. Mott, *The Characteristics of Effective Organisations*, Harper & Row, 1972, New York.

When it is suggested that measures of administrative innovation be adopted, it is implied that action be initiated to effect a major modification of the "mental set" that is prevalent today in the resource allocating activities and the agencies that perform the guardian role of procedures rather than the inspecting role of results.

(4) Debureaucratisation of the administrative culture will call for planned recycling of the public administrators between field assignments and office work. One of the positive lessons of the Chinese cultural revolution (1966-69) is that the party officials and administrative functionaries pegged to office work in the cities not only divorce themselves from the problems of the common mass but also foster the culture of bureaucratic functioning. The Chinese have sought to restore the balance by ensuring prolonged field assignments for the white collar bureaucrats, irrespective of their rank and status. The weight of tradition in India that public administrators after having attained certain rank would invariably be posted to headquarters assignments, would call for hard scrutiny. If the implementation process is our weak spot in the planning operation, then prestigious public servants would need to be involved in field operations irrespective of their status.

The recycling process will further help the administrators to appreciate as much the integration of theory and practice as the convergence of the planning process and the implementation process. Placed in such a role, they will realise that action without reflection is an inefficient form of utilising resources and that thinking without reality orientation is a verbal gymnastic leading to no desirable ends.

(5) It will be desirable to develop a "dialogical" relationship between the administrators and the people. The elitist bias for planning by the elite for the people will need to be substituted by healthy concern for people's sentiments and the potential of their contributions. Mao Tse-tung made the following statement in an interview:

"You know I have proclaimed for a long time: we must teach the masses clearly what we have received from them confusedly."<sup>19</sup>

The leadership role, therefore, is not one of leading or of being led but of being able to establish an active transactional relationship between the self and the others.

Freire<sup>20</sup> has shown that the words of the teachers emotionally integrated with the work experience of the taught can, not only initiate a meaningful programme of mutual education, but also a programme of great

<sup>19</sup> Andre Malraux, *Anti-Memoirs*, Hamish Hamilton, 1968, London.

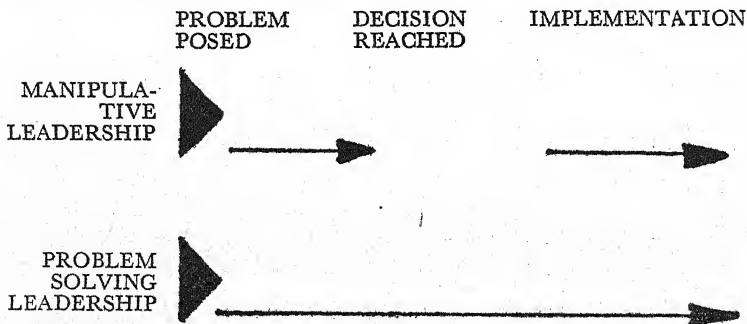
<sup>20</sup> Paulo Freire, *op. cit.*

force for social change. This has happened in a dramatic way among the poor peasants of north-east Brazil. It seems that such an orientation will be necessary to operationalise the concept of commitment of the masses to the objectives of the Plan. The common masses will get involved so long as the Plan objectives are translated in terms of their work experience and work interests.

It is suggested that such an active transaction will need to be established by providing a mechanism for outflow of feedback from the relevant people to the administrators and inflow of the equally meaningful feedback from the administrators to the relevant people. Once again, the experiences of cultural revolution in China indicate that the social turmoil was launched there in a number of ways, one of which was the provision of feedback to the authority figures by the young generation in the form of posters. The battle was fought, as it were, in the form of feedback rather than with the use of the instruments of offence. This is a lesson that is required to be integrated in the administrator-people dynamics for the purpose of the Fifth Plan.

It may even be necessary to develop what is known as "feed-forward loop" so that an advance system can be developed to organise to and fro movement of meaningful information which can assist the parties to develop action programmes for tomorrow.

It is possible that many public servants will look upon such a programme of involvement of the people as a time-consuming process. Experiences of Freire and many a leader of people, including Mahatma Gandhi, have indicated time and again that it was not so. Commitment is not a mechanical process. It has to be earned not on the basis of manipulation but on the strength of a genuine desire to involve and get involved. The diagram below will show that a manipulative process will involve a time consuming implementation programme while popular participation will smoothen out the Plan implementation process.<sup>21</sup>



<sup>21</sup> Gordon L. Lippitt, "What Do We Know About Leadership?", *National Education Association Journal*, December 1955, Washington.

(6) In the matter of mobilising popular support as a resource to the Plan implementation programme, a newer variety of organisational design will need to be conceived. Conventional wisdom invariably leads to the institutions of representative organs such as panchayats. While such forums should be more progressively utilised for the right cause, their limitations should also be recognised. These bodies, more often than not, do represent the elitist culture in the rural areas. The leadership of the representative organisations usually stands for such values and priorities which do not necessarily foster the production culture at grassroot levels.

So, the need will be to search for meaningful alternatives, not necessarily to weaken the representative institutions, but to establish deeper roots for Plan objectives by seeking wider linkages among the people. A number of core activities in the Plan do justify such a mobilisation plan: national programmes for minimum needs, land reforms measures, area development programmes, democratisation of work-place in the basic sectors of industries and essential services and so on.

The first requirement for a new organisational design will be to replace comparative passivity by activity on the part of grassroot members. If activity is the basis for participation, then, the production systems in operation, whether we consider the minimum needs programme or the democratisation of work-place in the factory, should be the core around which new programmes be organised. A new activity supported by Plan resources should not be foisted as an additional item but should be organically linked with the on-going activities with a view to fulfilling new needs and demands. A rural road-building programme, for example, should not be conceived in the design office of the PWD engineers located in the district headquarters or in the state capital on the basis of data collected by the engineers by making a few quick trips to the rural areas but should essentially evolve out of the dialogue with those who live in the area and who are the potential beneficiaries and such a dialogue would essentially provide the linkage between the on-going economic activities and the need for rural road-building programme. Time and again, the lessons from other developing countries have shown that people's participation by simply sharing information with them does not necessarily commit them to the tasks. On the other hand, should they perceive the new project in terms of their needs and their on-going experiences, such a project does evoke spontaneous and constructive responses.<sup>22</sup>

Even in the matter of implementation, the workmen involved in the project should, as far as possible, be from the local areas and their commitment

<sup>22</sup>T. E. Cook, et. al., *Participatory Democracy*, 1971, Canfield Press, San Francisco; Fred E. Emery, et. al., *Hope Within Walls*, 1973, Centre for Continuing Education, Australian National University, Canberra, R. M. Kanter (ed.), *Communes*, 1973, Harper and Row, New York; and Jan Myrdal, et. al., *China: The Revolution Continued*, 1971, Chatto and Windus, London.

should not be perceived simply in terms of inducements for contribution made but should be conceived in terms of semi-autonomous group-working on the basis of spelling out the parameters of the task and challenges and developing norms of group-working including monitoring and control mechanisms. A work culture, in other words, is to be established by such organisational designs as would facilitate participation culture.

We have already referred to some of the stereotypes that the elites hold about the common masses. These stereotypes refer to what they perceive as the weak elements in the tradition and culture of the masses. At the same time, if one examines carefully the behavioural dimensions of the norms of our tradition and culture, one may find that they do not differ so very dramatically between the elite group on the one hand and the common masses on the other. Many of the divisive elements built on the practices of caste, language, religion and region are as much a part of the culture of the elite as of the common masses.

The significant element, however, is that this cultural relativity is often seen as symbols of weakness for task performance, adversely affecting the goals and the pace of economic development. It is possible that the same elements of culture can be converted into an advantage as was done by the Japanese. From an elitist slant, many of the social and familial practices in Japan should not have been allowed to interfere with work organisation. But the Japanese have shown that these values and practices could be utilised in organising work structure as well as the work-group norms to get the best out of the technology and material resources.

Similarly, a dramatic example has been provided by the design of the rural hospital system in Nigeria on the principle that a patient with the tribal background would not accept the status of an indoor patient in a hospital even if he is seriously ill, unless the members of his family are allowed to be near him during the critical days. Keeping this element of cultural relativity in view, the rural hospital system was designed by incorporating this tribal value, making such a system to be socially acceptable in Nigerian culture. This is essentially then a matter of appreciation as to whether one should build organisation structure on the basis of cultural relativity or one should seek to make changes in cultural norms in order to conform these to the elitist conception of the desirable design. It is suggested that we have to revise our train of thinking and replace it by a new interpretation of cultural relativity and its worthwhileness.

(7) There will be certain identifiable primary activities on which the programmes of Plan implementation will depend heavily. Such identifiable primary activities will need to be organised on somewhat non-traditional

lines because of the high stake involved in their being able to provide inputs for the dependent activities. To provide an illustration, with the situation that is created on the energy front, coal has become the most vital energy source on which will depend power generation and the factory production system spread all over the country. The movement of coal will involve the railway transport system as well as the handling facilities in some of the ports. This will also involve the effective field-level operation of the state governments in eastern India and obviously the industrial relations climate, in addition to supply of technical skills, provision of equipment and spares, R & D activities in mine development and responsive role of the Mine Safety Organisation. The coordination mechanism involving so many complex systems is admittedly weak today. Keeping in view the importance of coal in the national economy and the ambitious programme of coal raising and transportation during the Fifth Plan, it will be necessary to establish a superordinate agency with requisite competence and authority to cut across the boundaries of various involved systems, like ministries in New Delhi, railway system, coking and non-coking coal production organisations, state governments and so on. It is suggested that similar other key activities of primary importance should be identified and superordinate agencies be created so as to facilitate the problem of systemic coordination. The existing administrative machinery backed by the current administrative ethos and the weight of past experience will be unable to deliver the goods thereby jeopardising the performance of the downstream operations. It will, indeed, be desirable for these superordinate agencies to be manned by highly competent persons with the ability to work with people under stress conditions and that they remain accountable to the Central Cabinet or to a committee of the Cabinet. Such is the importance of these tasks in ensuring other tasks to be accomplished.

(8) Lastly, for the elites to provide a new pattern of leadership to others in the planning process as well as the implementation process, it will be essential that such key personnel do cultivate values of self-awareness, self-introspection and pronounced proneness to psychological success. Self-oriented behaviour, practising the virtues of self-gain, and short time-perspective would indeed fail to enable effective leadership role to be performed as has been the case over past two decades and a half. Mere technical competence or a more than average record of past performance is no guarantee that there would be a match between the profession and practice. In systems language, congruence between the stated objective and the real objective would be possible when the leadership is willing to exercise the qualities of sensitivity, adaptability and flexibility. Edgar Snow has quoted Mao Tse-tung in the following words:

"If you want the masses to understand you and want to become one with them, you must be determined to undergo a long and even painful



process of remolding. I began as a student and acquired at school the habits of a student; in the presence of a crowd of students who could neither fetch nor carry for themselves I used to feel it undignified to do any manual labour such as shouldering my own luggage. At that time, it seemed to me that the intellectuals were the only clean persons in the world and peasants seemed rather dirty beside them.

"Having become a revolutionary, I found myself in the same ranks as the workers, peasants and soldiers of the revolutionary army, and gradually I became familiar with them and they with me, too. It was then and only then that a fundamental change occurred in the bourgeois and petty-bourgeois feelings implemented in me by bourgeois schools. I came to feel that it was those unremodelled intellectuals who were unclean while the workers and peasants are after all the cleanest persons even though their hands are soiled and their feet smeared with cow-dung. This is what is meant by having one's feelings transformed, changed from those of one class to those of another."<sup>23</sup>

Mao is not alone in this reflective skill. Mahatma Gandhi has done it, time and again. While one need not reach that commanding height of leadership to acquire the skills of reflection and self-exploration, in a country like India where there are intricate currents and cross-currents of social forces and the temptation towards soft options is rather high, impinging on the administrative leadership as well as the masses of people with whom the leaders are required to work, singular determination along with the ability to change and improve is a necessary prerequisite for those who seek to lead and motivate others. On the basis of the comparative undistorted perception of self-role relationship, these leaders will be able to examine their own behaviour and values in relation to their assigned responsibility. It is only a leader with a continuous growing edge who will be able to empathise with the people as also to provide modelling motivation to others. The dialogical relationship that is necessary for establishing the culture of result-orientation thus calls for not only a sense of humility in the leader but also an itch for learning from others and the environment. Authority conceived in terms of status and formal power is a major hurdle between the planning process and the implementation process and between the people and their ability to contribute. The administrative leader will need to overcome this barrier in his own person before he can claim effective popular participation. The operational significance of the new role of the public administrator is whether he will receive institutional encouragement to develop and sustain authentic behaviour under the stewardship of political leadership. In a socialist state, during the

<sup>23</sup> Edgar Snow, *Red China Today*, 1970, Random House, New York.



period of transition, an administrator is bound by the umbilical cord relationship with the party leadership. It cannot be substantially otherwise between a public administrator and the people's representative who acts as his beacon in a parliamentary form of democracy as ours.

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## THE ADMINISTRATOR OF THE SEVENTIES

*R. P. Khosla*

ONE of the most significant developments of the present decade has been the impact of the rapidly increasing pressure of population and its needs on the resources of this planet. Economists and demographers have painted in dramatic hues the consequences of the upsurge in the growth of the number of human beings in the past few decades and the likely trend of developments in future decades. This has brought about a very sharp awareness in the minds of men of the finiteness of material resources available on this earth. We have become acutely conscious of the fact that supplies of fuel, food, fresh air and the other materials necessary to sustain human life in a reasonable degree of comfort are limited and that the accelerating increase in human population is depleting these resources with alarming rapidity.

In such a situation, attention has naturally turned towards the need for conservation of these resources. It has become necessary to make the best use of the resources available and to evolve techniques that eliminate waste in the utilisation of such resources. This emphasis calls for careful attention from those agencies responsible for the exploitation and utilisation of resources. These agencies have to ensure that resources are exploited at the lowest possible cost and in the most economical manner possible. Whereas, in most western countries the management of resources is the function of agencies outside the Government, in India the vast majority of the vital resources are managed by Government itself either directly or through the agency of public sector Corporations. The Government is, for instance, directly involved in the management of resources of steel, coal, oil, power, transport, communications and many others, and the expansion of economic activity in the country has been accompanied by an even more rapid expansion in the domain of the public sector. This widespread involvement means that the organisations entrusted with exploitation and management of these resources have to achieve a very high degree of efficiency in their functioning. There have, however, been repeated expressions of doubt about the capacity of governmental agencies to achieve the necessary level of efficiency to meet the demands imposed by this expansion of economic activity.

Of course, the administrative machinery of Government has, over the years, been subject to frequent and fairly trenchant criticism. This criticism

has covered a variety of administrative functions and has extended to the manner of discharge of the Government's economic responsibilities. It is with the latter area of criticism that this article is principally concerned. In so far as the management of resources is concerned, there are two major criticisms which need to be considered. The first is that Government agencies, whether functioning as departments of Government or as public sector Corporations, lack cost-consciousness. There is only a marginal concern with cost reduction since the situation in which such agencies function does not produce a competitive approach and achievements in this field do not bring any particular rewards to those responsible for them. Thus, while physical targets exist and may be achieved, cost targets are rarely set up or striven for. The whole emphasis in governmental thinking is on implementing a programme along a prescribed pattern rather than within a specified cost.

The second major criticism is about the lack of time-consciousness in governmental agencies. All too frequently, the observance of correct procedures tends to override the importance of economies in time. An obsession with accountability to audit as well as to the Legislature breeds an attitude of caution which chooses the safe path of conformity to procedural regulations in preference to the dangerous one of quick decisions. Ultimately, the lack of time-consciousness is in many ways another facet of the lack of cost-consciousness, since in a developing economy where a continuous rise in prices is almost an intrinsic feature of progress, an increase in the time taken to implement a programme results in an almost directly proportionate increase in the cost of the programme.

The situation in the seventies and in future decades demands a fundamental change in emphasis in the methods and the skills of the men concerned with the implementation of government's programmes. The traditional functions of the administrator have not called for any particular managerial ability on his part. In the past, there has been no particular pressure on resources. There has thus been a feeling of abundance of resources and, therefore, of the unimportance of striving to make them available at a low cost. Similarly, the phenomenon commonly described as the revolution of rising expectations has not been a part of the traditional environment of the administrator. The patience of the people was regarded as infinite, and there was, therefore, no sense of urgency in the functions of the administrator. The administrator was traditionally concerned with the management of men and although, while doing so, he developed a considerable degree of skill in this field, he did not develop the cost-consciousness and time-consciousness which today's economic and social environment in this country demands.

There is, however, now a growing awareness of the need to develop managerial professionalism in Government. The administrator has to

become more and more a manager in the professionally understood sense of the word and the development of this professionalism is the only possible response to the challenge of the seventies. Although some awareness of this need is evident, adequate steps have not yet been taken to ensure that persons entrusted with the management and exploitation of resources in this country do actually possess this managerial professionalism. It is not as though the science of management is a new one but we have not as yet been able to ensure that most of our administrators are enabled to acquire this knowledge and utilise it in carrying out the tasks entrusted to them.

In developing this managerial professionalism, we have a great deal to learn from the methods adopted by industry in the private sector. The reason why the science of management has found greater acceptance in the private sector is the fact that, in the private sector, there has always been an awareness of the limits on the availability of resources. The reference to resources in this context does not mean the actual raw material, fuel and services which are utilised by a private sector unit but the money with which these goods and services are made available to the private sector. A private sector company has to depend for its funds on the capital of shareholders and the amount that it can borrow from financing institutions. Its ability to raise its capital from the public is limited by the degree of confidence that is likely to be reposed in it by prospective investors. The private sector company does not, therefore, have the freedom to increase its share capital beyond certain reasonable limits and the management of such a company is acutely conscious of this fact. Similarly, its ability to obtain loans from financing institutions is also limited by fairly strictly applied economic considerations. Thus, the constraints regarding the availability of funds, to which a private sector company is subject, automatically impose limits on the availability to it of the resources which money can buy. These constraints compel it to develop a very high degree of cost-consciousness and time-consciousness and consequently enable it to develop techniques for the utilisation of resources at the lowest possible cost and in the shortest possible time. Techniques, such as Cost Benefit Analysis, Operations Research, PERT and other sophisticated management tools have been in use in the private sector for quite some time and such tools are, in fact, growing more and more sophisticated every day.

On the other hand, all too often administrators concerned with the implementation of a project have a subconscious belief that the availability of resources whether in terms of money or in terms of what money can buy is unlimited; that shortages in funds can always be made up by fresh taxation or diversion of funds from one head to another. There has never been the need to undergo the discipline of cutting one's coat according to one's cloth. What needs to be realised is that while the supply of money can be increased

quite easily, this does not lead to an increase in the goods that money can buy. The ultimate limitation is, therefore, not one of funds but of physical resources. But to recognise this, it is necessary to impose limitations on the availability of funds to buy these resources. It is in this respect that the administrator has to learn from the private sector and to develop the approach and thinking which characterises an employee in the private sector. The only difference in emphasis, perhaps, would be that, while in the private sector the concern of the organisation is to utilise resources at a minimum cost in order to increase its profits, in the case of the administrator the exploitation of resources at minimum cost has to be directed towards the conservation of the resources themselves.

When talking about the need to develop managerial professionalism, it is necessary to make a point that managerial skill is, by and large, independent of what is managed. The same set of skills is applicable to the efficient management of different resources and it would be absurd to argue that the skills required for the management of steel plants are fundamentally different from the skills required for the management, say, of the oil industry or of the transport industry. Management skills consist of techniques of analysis, the application of certain methods to dealing with problems and the constant evaluation of results. The lateral mobility of competent managers in a country like America where managerial professionalism has perhaps found its highest expression is adequate proof of the fact that such skills are transferable and exist independently of the activity to which they are applied.

As has been stated earlier, traditionally the Administrator has handled men and has acquired considerable expertise in this field. While the importance of man-management cannot be minimised, it has become necessary at this stage to apply a corrective to the existing emphasis in the type of skills possessed by administrators. It has now become necessary to ensure that the organisational machine which is concerned with the implementation of decisions of Government functions at a much higher degree of efficiency and, therefore, to emphasise the purely mechanistic aspects of administration. The mechanistic aspects of administration are concerned with the collection of data, its proper processing, the introduction of scientific systems of monitoring and feedback and the application of the wide variety of management tools that are available to improve the decisions taken by an organisation. It is necessary to improve management information systems in the country so that the right type of data is available to the administrator for taking decisions. It is also essential to refine the appraisal techniques available today so that there is a constant feedback to the Government of the economic consequences of its decisions. It is equally important that the entire system of budgetary control be changed so as to develop an emphasis on cost-consciousness and time-consciousness. In all these respects, the pattern of functioning has to

approximate more closely to that of the corporate sector even though the organisation involved in the implementation of a programme may be a department of Government.

Along with the development of a management approach in the implementation of policies, a fundamental change in personnel policy will also have to be made. For staffing purposes, schemes and projects will have to be assessed in terms of the time required for their implementation. Where a scheme does not consist of a single compact project but of continuing programmes, the programmes will have to be broken up into integrated units which can be evaluated separately from the programme as a whole. The posting of an officer to such projects or schemes should be done for the total duration of that project or scheme so as to enable the Government to assess his performance in this field. The present system of transfers at periodical intervals unrelated to the stage of completion of the project not only leads to delay in the implementation of the project as a result of the dislocation which such changes cause, but also leads to dilution of responsibility for the successful and timely completion of the project. It becomes difficult to define what an officer is accountable for, thereby making it virtually impossible for the Government to assess reasons for failure or to give praise where it is due.

At this point, it may be argued that the concept of the type of administrator required for the seventies and for future decades discussed so far is unduly mechanistic and dehumanized and that it tends to reduce the administrator to a more or less robot-like role. It could be urged that such a view leaves no room for ethical considerations or value judgments in decision-making by the administrator. It could be pointed out that the administrator has traditionally played an important part in policy formulation and that he has invariably been associated with decisions involving value judgments. The question, therefore, arises as to what is the responsibility of the administrator in the field of value judgments in the seventies and in future decades.

It is probably inevitable that the emphasis on this aspect of the role of the administrator will decline and, in fact, signs of a change are already evident. This, however, is not a matter for regret. According to the text book definition of the relationship between the political leadership and the bureaucracy, the bureaucracy is not expected to have a major say in the field of value judgments. Such issues find their logical place in the political manifestos of the party in power. In India, the contribution of the Civil Service in arriving at value judgments has in the past been considerably larger than in countries where political democracy has a longer tradition. The decline of this contribution is, by and large, an inevitable concomitant of the development of political democracy in the country. With the efflux of time, political leadership has become more assertive and has initiated major changes

based on an exercise of far-reaching value judgments. The recognition of the significance of this change is all the more important in a country such as India, where there is a very distinctly noticeable cultural dichotomy between the civil servant and the political leadership. In the more highly developed nations of the West, the social, cultural and educational background from which members of the political leadership and members of the Civil Service are drawn are, more or less, the same. The choice as to whether an individual will enter the realm of politics or of service is determined almost entirely by considerations, such as the temperament and personal inclinations of the individual. The cultural or educational background of the individual is of little importance in making the choice. Since the social, cultural and educational background of both categories is more or less the same, when, ultimately, the civil servant and the politician have to work together in the role of bureaucrat and minister, it is possible for a close mutual understanding to develop in their functioning and duties.

In this country, however, the economic, social and educational background of the political leadership and the bureaucracy are widely divergent. The bureaucracy is, by and large, drawn from the middle class urban population with a career of school, college and often post-graduate educational qualifications. The political leadership, on the other hand, is drawn, by and large, from the rural agricultural background with a much more traditional cultural environment. It is thus difficult for the same rapport to develop between the bureaucracy and the political leadership in this country as is possible in more advanced western countries. In such a situation, any attempt by the bureaucracy to secure acceptance of proposals formulated by it exclusively in the light of its own value judgments is likely to create more problems than it solves. The fact that three-quarters of the population of this country is rural and agricultural in its occupation necessarily entitles the political leadership, drawn predominantly from this background, to be the final arbiter in the matter of value judgments.

A situation may, however, arise in which the bureaucracy feels strongly that a particular decision has not been taken in the interests of the people at large and that, for their own benefit, the decision should be different. However, any attempt by a bureaucracy to secure acceptance of a view based on its own value judgments can hardly find a place in any system of democratic government. This raises a very fundamental question which is whether a Government should endeavour to give the people what they want or what it thinks they ought to have. These alternatives represent two distinct trends of political thought. One is derived from the concept of Plato's Philosopher-King who decides in the light of his enlightened wisdom what is good for the people. This concept flows down through the writings of philosophers, such as Rousseau and Hegel, and finally finds its expression in the modern



totalitarian state. The other alternative is to give the people what they want and to accept the concept that what they want is what will serve their genuine interests most effectively. This concept forms an integral part of the stream of liberal democratic traditions flowing from Aristotle through thinkers, like Locke and Mill and culminating in the modern democratic state. According to this tradition, the bureaucracy is a machine which is designed to function at maximum efficiency to give the people what they want and not to determine what they ought to have.

The path, chosen by this country is the latter and administrators will have to develop the skills which will enable them to fill their roles with the maximum degree of effectiveness. Their traditional skills have to be supplemented by greater expertise in the management and conservation of resources and by the refinement of the administrative machine as a vehicle for quick and effective action. Only then will the bureaucracy be able to fulfil its true role as an efficient tool for the implementation of the popular will.



## CORPORATE SECTOR AND INDIA'S INDUSTRIAL DEVELOPMENT

*Om Prakash*

WHILE studying the growth of industrial enterprise in India, one gets confronted with two sharply divergent sets of views: one which seems to suggest that the corporate sector is still in its infancy; and the other, which goes to indicate that it has "overgrown" beyond the stage of maturity or the optimum point. As usual, in such situations, one may presume that the truth lies somewhere between these two extreme contentions. Such a presumption, however, may provide little comfort to the ardent researcher interested in getting a more precise picture.

In support of the first viewpoint, the annual sales of the top half-a-dozen giant industrial corporations of the USA (mostly multinational in character) can be placed in juxtaposition to the national income of India (and certain other countries). Table 1 is revealing:<sup>1</sup>

TABLE 1

	<i>Sales in 1972 (\$ billion)</i>
1. General Motors	30.4
2. Exxon	21.6
3. Ford Motor	20.2
4. General Electric	10.2
5. Chrysler	9.8
6. IBM	9.5
Total	101.7

The Mitsubishi Group of Japan (which does not appear, for technical reasons, in the *Fortune's* list of international giants) had an annual turnover

<sup>1</sup> M. R. Dunn, "The Impact of Multinationals", *Journal of the Institute of Bankers* (U.K.), April, 1974.

of about \$ 40 billion i.e. bigger than the biggest U.S. corporation. As against these figures, the national GNPs of some countries stood as follows in 1972 (in billion US dollars):

(1) USA, 1,152; (2) Japan, 299; (3) U.K., 129; (4) India (estimate of Net National Product for 1971-72 at *current* prices), 48; (5) Netherlands, 46; and (6) Belgium, 33.

Thus, India's national income was only 20 per cent more than the turnover of the biggest multinational enterprise. This is a pointer, on the one hand, to the large size of some of the industrial corporations of foreign origin and, on the other, to the low level of affluence which Indian economy has been able to attain even after two decades of national planning. The Indian "giants" appear to be "pigmies" in the international context. For example, the two public enterprises of India which appeared in the *Fortune's* list of 300 (ranked by sales in 1971)—Indian Oil Corporation and Hindustan Steel—occupied 179th and 183rd positions respectively, each with a turnover of about *half* a billion dollars only.

Thus, the size (as measured by sales) of Mitsubishi Group was 80 times and that of General Motors, 60 times the size of the biggest public enterprise in India's corporate sector. It is noteworthy that the GNP of USA was about 24 times, and that of Japan, six times the estimate of India's national income. Thus, even after making an allowance for disparities in national income, India's corporate giants stand on the "low" side (whereas Japan's business complexes would appear to be on the "high" side) in relation to their American counterparts. The total sales of General Motors (the largest US Corporation) alone were about three times the combined turnover of all corporate undertakings in India.

The other viewpoint has loomed large during the last decade in the wake of the findings of the Monopolies Commission and certain academic workers, like Dr. R. K. Hazari (Deputy Governor, Reserve Bank of India). The reiteration in the Five Year Plans<sup>2</sup>, of the Directive Principles of State Policy, as laid down in the Constitution of India (1950), has emphasized the expectation "that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment". There is a widespread feeling, often ventilated on political platforms, that the Indian variety of socialism, as evidenced during the last two decades, has been a virtual paradise for big business; by making the rich richer and the poor poorer, it has only accentuated economic inequalities. These contentions are

<sup>2</sup> See, for example, pp. 1-5 of the *Fourth Five Year Plan* (1969-74) where Articles 38 and 39 (a), (b) and (c) have been reproduced, besides the resolution on Socialistic Pattern of Society passed by Parliament in December, 1954.

not without foundation, even though the total size of operations in India's industrial economy may be small in relation to the leading nations of the world.

### GROWTH OF CORPORATE SECTOR

In India, taking the year 1951 as base, indices of Gross Capital Block of Big Business Complexes had gone up as follows by 1958 (within the first seven years of planning):

(1) Tata, 244; (2) Birla, 233; (3) Martin-Burn, 227; (4) Dalmia-Sahu Jain, 235; (5) Bangur, 572; (6) Thappar, 266; (7) Juggilal Kamlapat, 258.

The net sales of India's seven big business complexes rose from Rs. 1,195 crores during 1956-60 to Rs. 2,159 crores during 1961-65, indicating a rise of 81 per cent (more than double the overall industrial growth during the Third Plan, 1961-66).<sup>3</sup>

The total paid-up capital of companies at work in India (both government and non-government) was Rs. 770 crores at the end of March 1951. This increased to Rs. 5,422 crores as on-September 30, 1973, representing an increase of about 600 per cent. The magnitude of growth since 1960-61 is revealed by Table 2.<sup>4</sup>

TABLE 2

Date	Government Companies		Non-Government Companies			
			Public		Private	
	No.	Paid up capital (Rs. crores)	No.	Paid up capital (Rs. crores)	No.	Paid up capital (Rs. crores)
31-3-61	142	547	6,663	915	19,344	356
31-3-66	212	1,238	6,329	1,407	20,137	400
31-3-71	314	2,064	6,443	1,775	23,655	462
31-3-73	390	2,998	6,715	1,840	27,768	507
30-9-73	412	3,041	6,857	1,858	29,258	523

<sup>3</sup> Om Prakash (present writer), *The Theory and Working of State Corporations*, Orient Longman, 1971, p. 5.

<sup>4</sup> E.R. Krishnamurti, "Financing the Corporate Sector", *Eastern Economist*, New Delhi, September 6, 1974.

Table 2 goes to show that :

(1) The rate of growth (as measured by paid-up capital) over a period of  $12\frac{1}{2}$  years was roughly 450 per cent (*i.e.*, 36% p.a.) in the case of government companies, 100 per cent (*i.e.*, 8% p.a.) in the case of non-government public companies and only 50 per cent (*i.e.*, 4 % p.a.) in the case of non-government private companies.

(2) The rate of growth over the last  $2\frac{1}{2}$  years (March 31, 1971 to September 30, 1973), with the position obtaining on March 31, 1971 as the base, was roughly 50 per cent (*i.e.*, 20% p.a.)<sup>5</sup> for government companies, less than 5 per cent (*i.e.*, hardly 2% p.a.) for non-government public companies, and about 13 per cent (a little over 5% p.a.) for non-government private companies.

(3) The average paid-up capital, as on September 30, 1973, was Rs. 743 lakhs in the case of a government company, Rs. 27 lakhs in the case of a non-government public company and less than Rs. 2 lakhs in the case of a non-government private company.

(4) Over a period of  $12\frac{1}{2}$  years, the number of government companies rose by roughly 200 per cent (though on a rather narrow base); the number of non-government public companies was almost stationary (with an initial fall and a marginal rise thereafter); whereas the number of non-government private companies rose by a little over 50 per cent.

(5) By March 1973, government companies had outstripped non-government companies (public and private companies put together) in the matter of paid-up capital, *i.e.*, there was a decisive indication of the Indian economy getting "nationalised".

A Reserve Bank study<sup>6</sup> covering 1,001 non-government private limited companies (with paid-up capital of Rs. 5 lakhs and above), reveals that the rates of gross and net capital formation were the highest at 14.7 per cent and 16.4 per cent respectively (in 1971-72 over 1970-71) in the size-group Rs. 15 lakhs to Rs. 25 lakhs. These rates were the lowest in the size group Rs. 25 lakhs to Rs. 50 lakhs at 7.3 per cent and 4.8 per cent respectively. As against these figures, the overall rates of growth (for 1,001 companies) were 10 per cent and 9.4 per cent respectively. The total value of production and net sales increased by 8.9 per cent and 11.3 per cent respectively; but, in the context of

<sup>5</sup> During the half year March 31, 1973 to September 30, 1973 the rate of growth was disappointing (hardly 3% p.a.) even in the case of Government Companies, apparently as part of the general recessionary trend (in the midst of stagflation) in Indian economy.

<sup>6</sup> "Finances of Medium and Large Private Limited Companies 1971-72", *Reserve Bank of India Bulletin*, Bombay, April, 1974.

the rising price level, this was of little significance. While the overall gross profits rose by 16.1 per cent, pre-tax profits rose by only 11.2 per cent (largely on account of mounting interest charges), and profits after tax rose by just 5.9 per cent (obviously on account of heavier taxation). More than two-thirds of the 1,001 companies did not declare any dividend as revealed by Table 3.

TABLE 3

Rate of Dividend	Number of Companies	
	1970-71	1971-72
Nil	680	690
Up to 5%	66	55
5—10%	88	86
10—15%	89	92
15—20%	32	35
20—25%	25	22
25% and above	21	21
Total	1,001	1,001

Industry-wise, the dividend record of these companies was *higher* (in 1971-72 over 1970-71) in the case of shipping, chemical products, sugar, tea plantations, cotton textiles and engineering workshops; it was *lower* in the case of medicines and pharmaceutical products, rubber and rubber products, basic industrial chemicals, motor vehicles and trading.

Another study<sup>7</sup> of 350 large public limited companies (with paid-up capital of Rs. 1 crore and above) indicates that the share of internal resources in asset formation increased from 63.7 per cent in 1971-72 to 69.8 per cent in 1972-73. For cotton textiles, this ratio rose from 24.2 per cent to 88.5 per cent; whereas, in shipping, it went down from 74.5 per cent to 34.4 per cent. Dividends had a tendency to rise in the case of shipping, chemicals, textiles and engineering industries; whereas, there was a declining trend in the case of mineral oils and steel. Table 4 presents the frequency distribution of 350 large companies according to percentage of equity dividend paid on ordinary share capital.

While the proportion of units not paying any dividend is not as large in this group of large companies (a little over one-fourth) as in the group of

<sup>7</sup> "Finances of Large Public Limited Companies, 1972-73", *Reserve Bank of India Bulletin*, Bombay, February 1974.

TABLE 4

<i>Percentage of Dividend</i>	<i>Number of Companies</i>		
	1970-71	1971-72	1972-73
Nil	95	99	91
Up to 5	11	7	6
5—10	52	33	44
10—15	123	129	115
15—20	39	52	55
20—25	14	17	24
25 and above	16	13	15
Total	350	350	350

medium and small companies (more than two-thirds), the overall dividend record does not hold out much optimism. Rather, there appears to be a sagging tendency in the profitability (rates of growth) of large companies as revealed by Table 5.

TABLE 5

<i>Indicators</i>	<i>Rates of Growth (per cent)</i>	
	1971-72 over 1970-71	1972-73 over 1971-72
Value of Production	+11.7	+9.1
Net Sales	+11.2	+10.9
Gross Profits	+6.0	+1.7
Profits before Tax	+2.9	-0.3
Profits after Tax	-3.4	-5.6

Corporate undertakings in the public sector (government companies and public corporations) too, in spite of massive investments, have not been able to make much of a mark. During the quinquennium, 1967-68 to 1971-72, the overall performance of public enterprises was consistently typified by red ink entries. The overall net loss fell from Rs. 43 crores in 1967-68 to Rs. 3 crores in 1970-71. In 1971-72, this net loss rose to Rs. 19 crores (total profit of profitable concerns being Rs. 99 crores against the total loss of unprofitable



concerns amounting to Rs. 118 crores). The following were the top profit-making and loss-incurring concerns<sup>8</sup> (Table 6).

TABLE 6

	<i>(In crores of Rupees)</i>	
	1967-68	1971-72
<i>Profit-making (big three)</i>		
1. Indian Oil Corporation	10.8	31.9
2. Oil and Natural Gas Commission	12.8	12.1
3. Shipping Corporation of India	6.1	8.1
<i>Loss-incurring (big three)</i>		
4. Hindustan Steel	40.1	44.9
5. Heavy Engineering Corporation	16.5	15.9
6. Neyveli Lignite Corporation	5.5	13.3

The highest rate (20%) of dividend (1971-72) was declared by the State Trading Corporation of India and Hindustan Steel Works Construction Co. This was followed by Cochin Refineries (16%), and National Industrial Development Corporation (15%). The rates of dividend in the case of six other public enterprises varied between 10 per cent and 12½ per cent. In 1971-72, there were 93 running concerns in the public (corporate) sector falling within the purview of the Government of India. Of the 84 concerns of an industrial or commercial character, 54 made profits and 30 suffered losses. It has been claimed that the public sector turned the corner in 1972-73 when it earned an overall net profit of Rs. 20 crores (against an overall net loss of Rs. 19 crores in 1971-72). For the year 1973-74, an overall net profit of Rs. 66 crores (*after* contributing about Rs. 70 crores by way of income tax) was claimed by Mr. P. J. Fernandes, Director-General, Bureau of Public Enterprises.<sup>9</sup> But this return was just over 1 per cent on an investment of about Rs. 5,750 crores. Keeping in view the high rates of interest, Central Government's investments in corporate undertakings (of the magnitude of Rs. 6,000 crores) should yield a commercial return of the order of Rs. 1,000 crores per year. Unfortunately, out of 120 concerns in 1973-74, 39 were still running at a loss and most of the remaining 81 concerns had only nominal profits to their credit. Moreover, these profits were mainly concentrated in oil, shipping and trading concerns.

<sup>8</sup> Raj K. Nigam, "The Quinquennial Review of Public Enterprises", *Lok Udyog*, New Delhi, April 1973.

<sup>9</sup> P. J. Fernandes, *Eastern Economist*, New Delhi, September 6, 1974.

The turnover in the case of non-manufacturing enterprises appears to have grown faster than the same in manufacturing enterprises of the public sector, as indicated by Table 7.

TABLE 7

<i>Enterprises</i>	<i>(In crores of Rupees)</i>	
	1967-68	1971-72
1. Manufacturing Concerns (Total Turnover)	1,060	2,163
2. Non-manufacturing Concerns (Total Turnover)	794	1,812
3. Manufacturing Concerns (Exports)	50	66
4. Non-manufacturing Concerns (Exports)	95	191
5. Other Earnings (Mainly Invisible Exports)	65	103

Amongst manufacturing concerns, Hindustan Steel Limited alone had contributed as much as Rs. 31 crores to exports in 1967-68. This figure rose to Rs. 53 crores in 1970-71. Thereafter it fell steeply to Rs. 15 crores in 1972-73 on account of, *inter alia*, government restrictions.

Under-utilization of production capacities has plagued the working of many public enterprises in India. Of the 52 undertakings analysed by the Committee on Public Undertakings of the Lok Sabha (1973), capacity utilization was below 50 per cent in as many as 16 concerns (including 6 concerns with less than 25 per cent utilization). Out of the remaining 36 concerns (with 50% or more of capacity utilization), only 7 concerns (including 4 refineries) could claim the impressive achievement of 100 per cent or more of capacity utilization. In 1971-72, the following were some of the glaring examples of under-utilization of production capacities:<sup>10</sup> (1) Bharat Heavy Electricals (Haridwar Plant), 13 per cent; (2) Tannery and Footwear Corporation, 24 per cent; (3) Hindustan Cables (Co-Axial Plant), 34 per cent; and (4) Hindustan Steel (Durgapur Plant), 44 per cent.

In the case of Heavy Engineering Corporation (with an investment of over Rs. 200 crores), there was gross under-utilization of capacity, during the

<sup>10</sup> "Role and Achievements of Public Undertakings", *Lok Udyog*, January 1974.

year 1968-69, as noted below:<sup>11</sup> (1) Heavy Machine Building Project, 13 per cent; (2) Foundry Forge Project, 7 per cent; and (3) Heavy Machine Tools Project, 3 per cent.

While the phenomenon of under-utilized capacities is not confined to the public sector, a miscalculation of this magnitude could not have possibly occurred in a private enterprise. Of course, there are the usual *alibis*—insufficient orders, changes in the pattern of demand, shortage (and delays in the receipt) of components/raw materials/essential inputs, low labour productivity, strained labour relations, and initial technical difficulties (including prolongation of gestation period and frequent breakdowns on account of the failure to adjust foreign technology to Indian conditions).<sup>12</sup>

#### TECHNOLOGICAL GAPS

Over-dependence on imported technology, which has characterized India's corporate undertakings (both in the private and public sectors of the economy), appears to be a major constraint in promoting the objectives of (rapid and self-reliant) industrial development. A recent study conducted by the Reserve Bank of India suggests that foreign firms are generally less keen on transferring technology under pure technical collaboration agreements than under direct investment (subsidiaries) or minority participation. It points out: "For the foreign collaborator, profitability and the power to control the management and policies of the local company are the main objectives."<sup>13</sup> The survey covered 877 companies in the private sector, of which 197 were subsidiaries, 433 minority participation companies, and 247 pure technical collaboration companies. It also covered 41 government companies. Of these, 32 had pure technical agreements with foreign companies, 7 had both financial and technical collaboration, while 2 had only financial participation.

During the six-year period (1964-70), these arrangements were responsible for a fairly heavy pressure on India's balance of payments as revealed by Table 8.

The annual average drain thus amounted to Rs. 240 crores (including Rs. 95 crores accounted for by government companies). In the case of

<sup>11</sup> Om Prakash, *op. cit.*, p. 292.

<sup>12</sup> Unfortunately, there has not been enough unity of purpose even within the public sector; and the decisions of one undertaking have gone to upset capacity utilization in another. For example, although the sleeper plant of Durgapur Steel had been installed to supply sleepers to the Indian Railways, the Railway Board subsequently decided to go in for cement sleepers. See Om Prakash (present writer), "Norms of Marketing Management for Public Enterprises in India", *The Indian Journal of Commerce* (Conference Number), December 1967, p. 156.

<sup>13</sup> "Survey of Foreign Financial and Technical Collaborations in Indian Industries, 1964-70" (Main Findings), *Reserve Bank of India Bulletin*, June 1974, p. 1042. This was the "follow-up" of an earlier survey (1960-64).

TABLE 8

(Figures in crores of Rupees)

<i>Companies</i>	<i>Imports</i>	<i>Exports</i>	<i>Net Trade Balance (+ or -)</i>
1. Subsidiary	749	248	-501
2. Minority	503	332	-171
3. Pure Technical	348	149	-199
4. Private Sector (1+2+3)	1,600	729	-871
5. Government	742	172	-570
6. All (4+5)	2,342	901	-1,441

government companies, imports were (as high as) more than four times the level of exports generated, whereas companies in the private sector were responsible for imports which were (only) a little more than twice the level of exports generated. The burden of imports was high in the case of government companies in relation to value added by manufacturing also. This value for companies in the private sector was more than four times the value for government companies in 1964-65 and thrice in 1969-70. As against this, the burden of imports for companies in the private sector was only a little more than twice the figure for government companies. The overall average annual burden of imports for all companies was Rs. 390 (266+124) crores during the period 1964-70 as against the value added by manufacturing amounting to Rs. 646 (518+128) crores in 1964-65 and Rs. 1,326 (1,000+326) crores in 1969-70. Thus, the supposed argument regarding saving in foreign exchange through collaboration arrangements could not go far, particularly in the case of government companies.

The position regarding the aggregate burden on foreign exchange resources would appear to be more dismal after taking into account: (1) dividends, royalties and technical fees, (2) payments to foreign technicians in foreign currency, and (3) interest on foreign loans payable by companies in the private sector. The total figure came to Rs. 262 crores for the period 1964-70 as against only Rs. 94 crores for 1960-64. Thus, the average annual burden on this account had gone up from about Rs. 24 crores to about Rs. 44 crores. During the period 1964-70, there was a sharp increase in foreign currency loans (direct), particularly in the case of government companies and minority companies in the private sector, as indicated by Table 9.

Interest remittances, naturally, rose from Rs. 5 crores in 1964-65 to Rs. 20 crores in 1969-70 (with an obvious escalation for subsequent years).

TABLE 9

<i>Companies obtaining foreign currency loans</i>	<i>Outstanding Loans (In crores of Rupees)</i>	
	1964-65 (end)	1969-70 (end)
1. Subsidiary	16	37
2. Minority	58	178
3. Pure Technical	20	31
4. Government	33	258
Total (all companies)	127	504

The projections for 1970-74 in the Reserve Bank's Survey suggested a steady rise in foreign exchange burden on account of repayment of foreign loans, royalties and technical fees. It also visualized a sizable rise in imports as against just a moderate rise in exports.

Another matter of concern is the slow rate of transfer of technology. Companies in the private sector had, roughly speaking, two foreign technicians operating (in collaboration firms) for one Indian technician sent abroad for training during 1964-70. In the case of government companies, this ratio was even more adverse—roughly four foreign technicians operating (in collaboration firms) as against only one Indian technician sent abroad.

#### ADMINISTRATIVE DISCOMFITURES

The enforcement of a new Companies Act in 1956 and numerous amendments therein from time to time had already gone to indicate the deep-seated desire of the Government of India to tie the corporate "animal" to the tether. Not satisfied with all this, the Government seemed to imagine that Indian capitalism had reached that stage of maturity which called for anti-monopoly legislation on the lines of anti-trust laws of USA or similar measures more recently adopted in UK.

The Monopolies and Restrictive Trade Practices Act, 1969, came into force on June 1, 1970, in India—a few years after the submission of report by the Monopolies Inquiry Commission. The two main objectives of the Act are: (1) checking concentration of economic power into fewer hands to the common detriment; and (2) controlling monopolistic and restrictive trade practices.

For the attainment of these objectives, a new administrative agency—Monopolies and Restrictive Trade Practices (MRTP) Commission—was set up in August 1970, apart from the direct Governmental set-up (Department of Company Affairs) which was already in existence. Apparently, the MRTP Act was not able to serve much useful purpose during the first four years (1970-74). Rather, the assessment in some well-informed quarters appears to be that its effect has been anti-growth (overkill legislation)—killing entrepreneurial initiative on the one hand and the consumer's buying capacity on the other.<sup>14</sup>

Until June 29, 1974—when the MRTP Commission issued new regulations to replace completely the Restrictive Trade Practices (Inquiry) Regulations of 1971—there appeared to be over-emphasis on the first function, *i.e.*, applying brakes on the expansion of industrial undertakings within big business complexes. An analysis of 498 applications received up to November 1973 under Articles 21, 22 and 23 of the MRTP Act is presented below: (1) Cases approved, 166; (2) Cases rejected, 32; (3) Cases pending, 133; and (4) Cases found to be not attracting the provisions of the Act, 167.

Thus the MRTP Commission had a rather low "propensity to reject" applications (less than one-tenth of the cases disposed of), which can be interpreted to mean (*inter alia*) that either : (1) because of the enforcement of MRTP, the big industrial houses stopped thinking in terms of (or abandoned their plans for) further expansion; or (2) India really did not need a Monopolies Act; or (3) the MRTP Commission found it difficult to reject many applications (on account of the skilful presentation of their cases by monopoly interests or because of the influence which they continued to wield on the Government).

Whatever be the most appropriate explanation, it could hardly go to establish the usefulness of a measure like this for India, particularly in the context of the sagging tendency in industrial growth after the enforcement of the MRTP Act. The inordinate administrative delay in the acceptance (or rejection) of cases—on account of prolonged screening by a number of Governmental Committees at several stages—proved to be self-defeating. Since many of the entrepreneurial decisions tend to be momentary—conditioned by the mental and environmental make-up at a particular moment—there may be quite a few ironical situations in which projects approved by the Commission are dropped later on by the applicants. It remains to be seen if the situation materially improves with the setting up of Secretariat for Industrial Approvals and Projects Approval Board under the new licensing procedures introduced on November 1, 1973.

<sup>14</sup> *Commerce*, Bombay, July 6, 1974.



The Companies (Temporary Restrictions on Dividends) Ordinance of July 6, 1974 (corrected on July 15, 1974 to clarify the definition of profits to the detriment of the Corporate Sector) is another administrative discomfiture. Under this measure, the maximum divisible profits would be either one-third of the net profits or 12 per cent (on the face value of equity shares and the prescribed rate of dividend payable on preference shares) *whichever is less*. On July 8, 1974, a follow-up measure imposed restrictions on the issue of bonus shares. The minimum time-lag between two bonus issues was increased from 18 months to 40 months.

Designed as an anti-inflationary measure, this control on dividends aims to restrict purchasing power (consumer spending in the hands of shareholders)—and possibly to encourage the process of re-investment within the corporate sector—to the tune of Rs. 50 crores to Rs. 60 crores per annum. This measure, again, is self-defeating. While it has been an utter failure in reducing inflationary pressures (prices having risen sharply after the event), it has virtually cut the roots of corporate growth as evidenced by the prolonged gloom on stock markets in India (following the measures of July 1974). With bank rate pushed up from 7 per cent to 9 per cent in July 1974 (and the commercial lending rate well above that level), there is little chance of an investor being satisfied with a dividend on equities (bearing so much risk and uncertainty) which is not to exceed 12 per cent in any case. Rather, for companies earning less than 36 per cent, the rate of dividend will be less than 12 per cent. Thus, if the earning rate of a company (with all its capital in equities) is 18 per cent, it cannot declare a dividend of more than 6 per cent (which is far below the maximum rate of 10 per cent available on fixed deposits in nationalized banks with effect from July 23, 1974). The obvious consequences may be: (1) disincentive to buy shares of companies on the part of investors; (2) incentive on the part of companies to increase avoidable expenditure (in view of the strait-jacket limit on dividends); (3) compulsions on companies to resort to public deposits and other borrowings at exorbitant rates of interest; (4) adverse effect on corporate profitability and growth; and (5) renewed support to “cost push” as well as “demand pull” inflation.

If at all the Government wanted to give a boost to the ploughing back of corporate profits, the same could have been accomplished *via* tax concessions and penalties, *e.g.*, a “carrot and stick” policy for the fulfilment or non-fulfilment of production targets/social objectives. Adjustments could be made in tax rates on the basis of “selectivity” to encourage the faster growth of certain industries (which need high priority) than other industries (appearing low in the national priorities list). Further, a substantial reduction in the maximum (marginal) rate of tax could mean a big jump in corporate growth. Even if, for a couple of years, such a policy apparently means the loss of some revenue (say Rs. 60 crores in a year), this loss is likely to be



compensated several-fold by the multiplier effects of rapid industrial growth—more excise duty, more sales tax, more profits and more corporate tax. The model suggested by Harold Hotelling and (other advocates of marginal cost pricing for public utilities)—whereunder gigantic welfare effects are visualized for the society as a whole through low price of electricity (and such other basic industries)—can well be applied to the structure of corporate taxation in India.

### CONCLUSIONS

(1) It is not correct to suppose that the corporate sector has “over-grown” beyond the stage of maturity or the optimum point in Indian economy.

(2) Reaction against companies in the private sector appears to have stemmed from the complicated network of industrial licensing and discretionary controls giving wide powers to public officials to favour or disfavour (or to keep in a state of suspense) certain groups of industrialists. This reaction has been heightened by the consequent (overall) disappointing growth of the corporate sector. If there were general buoyancy, fast growing employment opportunities for the common man, and a rapidly growing volume of goods for the consumer, not many people (except a few committed radicals) would have cared to react against the corporate sector.

(3) The growth of Government companies has been much faster (roughly five times, as measured by increase in paid-up capital) than non-government companies. By March 1973, the amount of paid-up capital in government companies had outstripped the figure for non-government companies—a decisive indication of Indian economy getting “Nationalized”. As on September 30, 1973, the average paid-up capital of a government company was Rs. 743 lakhs as against Rs. 27 lakhs in the case of a non-government public limited company and Rs. 2 lakhs in the case of a non-government private limited company.

(4) The corporate sector as a whole has had a disappointing record in the matter of profitability/dividend payment in recent years. More than two-thirds of the small and medium companies and one-fourth of the large companies surveyed in the private sector did not pay any dividend in 1971-72. Not even one-tenth of the total number of companies in the private sector could pay dividends beyond 20 per cent. In the public sector, the highest rate of dividend (20%) was declared by only two government companies. Eight other public undertakings declared dividends ranging from 10 per cent to 16 per cent. The quinquennium 1967-68 to 1971-72 witnessed a consistent record of (overall) red ink entries in the public sector. There was an overall net loss

of Rs. 19 crores in 1971-72, and an overall net profit of Rs. 20 crores in 1972-73 and Rs. 66 crores in 1973-74. This was a return of just over 1 per cent on an investment of the magnitude of Rs. 6,000 crores in corporate public enterprises (public corporations and government companies). There were small pockets of profitability mainly in oil, shipping and trading concerns. Manufacturing concerns, particularly in the public sector, were plagued with gross under-utilization of production capacities.

(5) Foreign collaboration agreements had greatly increased the burden on India's foreign exchange resources. Yet, the rate of transfer of technology was extremely slow.

(6) The administration of Monopolies Act (1969) and the Restrictions on Dividends (1974) have proved to be self-defeating. A boost can be given to India's industrial growth and the profits can be ploughed back *via* tax concessions and penalties based on objective performance and national priorities.

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## THE ANATOMY OF THE DICHOTOMY OF GENERALIST VS. SPECIALIST\*

*M. A. Muttalib*

OURS is the age of specialisation. There has been an explosion of knowledge in every walk of life enabling the onward march of civilisation. Specialisation carries in its train certain limitations of very practical nature, causing inconvenience to the specialists themselves and to their clientele. One is reminded of a joke that tends to make the specialist its target. It is said that a person who had his right eye defective, was advised to consult a physician. On seeing him, the physician suggested that he should consult an eye-specialist. When the patient met him, to his disappointment, he was informed that he saw a wrong person. He should seek the help of some other eye-specialist who had specialised in right eyes. Further, the specialists tend to become a butt of ridicule when they are called upon to coordinate their activities for a common goal. As Paul Appleby has remarked, "As one's knowledge increases in a specialised way, by study or situation and assignment, one's general ignorance increases disproportionately. This could result in such confusion as to stop the advance of civilisation and cause its dissolution. Unless we can make all of our specialised learning, functions and interests harmonise in the sense of being at least mutually tolerable, and many of them actually complementary, the march of civilisation will become a descent into chaos." As an illustration of this thesis, one may quote an incident from the Manhattan Project of New York that was charged with the manufacturing of the first Atom Bomb. The Project employed hundreds of physicists who had so specialised in sub-sub-fields of physics that they reached a stage when they could not understand each other with highly specialised branches and sub-branches of physics. The problem of communication could be resolved only by the employment of a Professor of English charged with talking successfully to the physicists until he could serve as an interpreter.

Yet specialists as a class, are assuming increasing importance in development administration, charged with the fulfilment of welfare state commitments. They are regarded as the transmitters of the fruits of science and

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\* This article is based on a lecture delivered in February 1974 in the Department of Political Science and Public Administration, Saugar University, Madhya Pradesh under the University Grants Commission Inter-University Lecture Programme.

technology to the community. No wonder that some of the recent committees and commissions, like those of the Fulton Committee, 1966-1968, and the Indian Administrative Reforms Commission, have voiced similar feelings in their findings which in turn have resulted in the explosion of the so-called myth of what is described as the 'cult of the generalists' or the 'all-rounders' or the 'heaven-born administrators'. It was in keeping with this trend that the Third Pay Commission has narrowed the gulf existing between the generalists and the specialists in regard to pay and other conditions of service, a prolific source of tension between them.

Some may attribute the controversy of generalists vs. specialists to an academic articulation of the situation. This may appear to be true in regard to a certain form of organisation which is engaged in technical or specialised activity where the generalists and the specialists tend to be relative, not absolute terms. One may illustrate from an organisation like a University. The University is an organisation engaged in teaching and research in highly specialised branches of knowledge. In an Indian University, the Vice-Chancellor functions something like the chief executive officer along with several deliberative and advisory bodies that help organise its activities to meet the needs of the society in higher education. On the academic side, the Vice-Chancellor is assisted by Deans, who preside over their respective Faculties which in turn are divided into number of Departments chaired by Heads of the Departments. Each Department is engaged in teaching and research in the discipline concerned, whose branches and sub-branches are manned by specialist teachers and researchers. Thus, every teacher or researcher is a specialist in his own field. The Head of the Department, who is also basically a teacher, is a specialist in his own field like any other teacher. But when he is called upon to coordinate the activities of the Department in teaching and research as the Head of the Department, he emerges more or less as a generalist. Similarly, all the Heads of the Departments are treated as specialists in their respective disciplines when they are to tender expert advice to the Dean on a matter referred to them. The Dean who is to coordinate the academic activities of the various Departments under his Faculty, will be acting something like a generalist in relation to various Heads of Departments in the Faculty, although he may be regarded as a specialist by the Vice-Chancellor when he is to assist him in the formulation of academic policy of the University. Likewise, the Vice-Chancellor is so in relation to the Deans and perhaps the Education Minister, in respect of higher education. The same may be applicable to the Education Minister in relation to those in charge of various segments of education on the one hand, and the Chief Minister of the State on the other. This may be true in respect of the Chief Minister in relation to the Government of India in regard to the affairs of the State and those in charge of the various sectors of administration of the State.

Thus, the typologies of generalists and specialists are relative terms, relative to the situation. If a particular functionary is to be related to his lower levels, his role is of generalised character. If he is to be related to his superior levels, he would be serving like a specialist. If the first type of functionary is to predominantly promote knowledge and experience, the second type is to organise and articulate knowledge and experience in a coherent way to promote the common goals of the organisation. Hence, they require different skills for the fulfilment of their duties. If a Professor makes a good Head of the Department or a good Dean of the Faculty or a good Vice-Chancellor of the University, he does it in spite of his academic excellence rather than because of it.

The difference between these two sets of personnel is more visible in a multi-functional organisation, like Panchayati Raj or district administration in an Indian State. They represent two models of personnel with different educational background. Thus, the generalists are recruited from candidates with liberal educational background, while the specialists would have received vocational education. The Public Service Commission employs different modes of recruitment for them. If the candidates for the generalist positions are subjected to a long written examination followed by a personality test, the specialists need not take any written examination; their selection is generally on the basis of their performance in an interview.

Similarly, their mode of entry and their chances of promotions vary. While immediately after recruitment, the specialists are put on the job, the generalists are to undergo a long-term probationary training; and therefore, it is likely that unlike the generalists who are drawn from candidates, fresh from colleges and universities, the specialists need not be so. This is a logical corollary of the career services programme generally contemplated only for the generalists. According to this policy, recruitment to the generalist posts is made to the lowest rung of the service to enable them to earn accelerated promotion opportunities throughout their service career. On the other hand, the specialists and technical personnel are normally recruited to isolated and separate posts. They are not generally integrated and graded like the generalist posts. Consequently, the generalist services normally attract the cream of universities and colleges.

A further distinction can be made between these two sets of personnel in regard to the use of their services by the employer. Since the specialists belong to functional services, generally they spend their entire career in their parent department, unless their services are required in other Departments entailing the employment of their skill or knowledge. But the concept of parent department is almost alien to the generalist class. They keep on moving from one department to another. Generally, they are not retained in

any one department for more than two to three years. Hence, one may characterise them as 'birds of passage'. But their retention in a particular department for a longer duration will undermine the essence of the character of their class, namely, adaptability. In fact, adaptability is such 'a fragile quality of man that it is likely to be destroyed with long contact with routine work'. In the same way, the frequent transfers of the specialists from one post to another with dissimilar functions, or from one place to another will undermine their specialism.

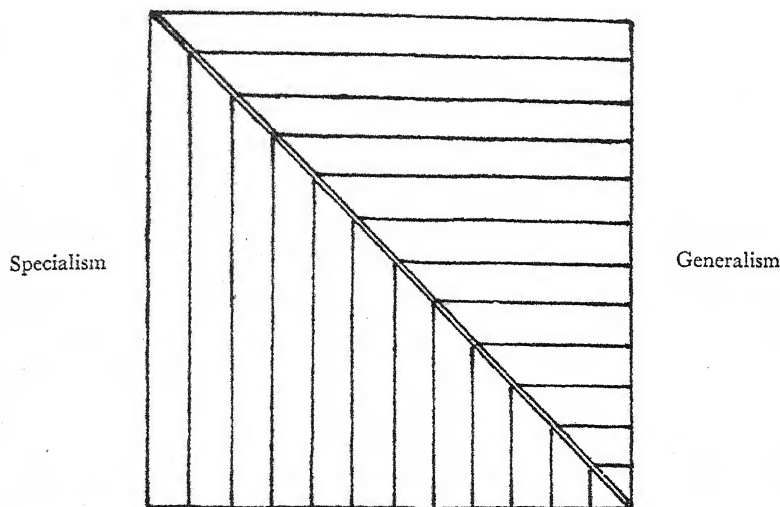
In a traditional organisation, the relationship between the generalists and specialists is hierarchical. If the generalists are on top, the specialists are on tap. For, at the top positions are the jobs demanding the administrative skills, such as strategy, planning, public relations and overall coordination in which the generalists would have gained varied experience. They have the ability to organise the work of others on a grand scale. They may also possess professional skills as a lawyer, engineer or chemist, but their duties as administrator are not based upon their functional specialisation. With the increasing size and complexity of an organisation, their importance increases. It is not, therefore, surprising that generalists are better looked after by their employer. Accordingly, as against the specialists, they are better paid and better amenities are made available to them. All this earns them a better social standing and a better public image compared to a specialist.

A sociological survey of the generalists may reveal that they are more mobile socially because they are so vocationally. They are ambitious in their aims and objects since their career is so designed and they are idealistic in their approach to problem-solving, and sophisticated in their behavioural style. By virtue of their having occupied key positions in an organisation, they would have developed the qualities of articulation and management of men and material. All these help them cultivate a reflective mind for evolving generalisations from particulars.

A serious doubt is raised as to the efficacy of the practice of their posting to key positions when they are not usually in possession of technical knowledge required in the organisation. A close analysis of the jobs of the generalists shows that they are called upon to 'know more and more about more and more but probably never enough about any of the many fields subject to their direction to qualify as a specialist'. On the other hand, the specialists are expected 'to know more and more about lesser and lesser'. Flowing from these definitions, it becomes inevitable to have the generalist at the top position, although he may not be in possession of technical knowledge. For, as Henri Fayol remarked, "the higher the position in the hierarchy or the larger the business, the more important relatively becomes administrative knowledge and skill". At higher levels, the proportion of technical

knowledge necessarily diminishes, but administrative knowledge and skill are of increasing importance. Likewise, the lower the level, the greater the involvement in the application of technical knowledge. *me*

#### USE OF GENERALISM AND SPECIALISM



Therefore, for a position like the Chief Executive Officer of *Zilla Parishad* in Maharashtra and the District Collector in Andhra Pradesh, an officer with generalist background is preferred to an officer with technical background. This may be acceptable even to a specialist. For, he feels that with a generalist at the top, he will have greater operational freedom and more satisfaction to his personal ego when his proposals are generally acted on. This amounts to the bifurcation of the exercise of authority into 'advice authority' and 'sanction authority'. This implies that the top position is not actually occupied by a single person, but it is 'thickly populated' with all experts surrounding him, giving the top position something like the shape of an oval. This is particularly true in Maharashtra and Andhra Pradesh at the district level where the generalist Chief Executive Officer of *Zilla Parishad* and the District Collector are assisted by more than half a dozen specialists.

Sometimes, it is contended that the exercise of sanction authority by the generalist leads to friction between the generalist and the elected functionaries. Hence, it is suggested that the generalist should be replaced by a specialist. But this does not hold water. For, conflicts between the generalists and the elected functionaries stem out of their sharing a faded zone, not clearly demarcated, namely, policy formulation. Therefore, if the specialist replaces the generalist, he will have to assume the role of the latter and thereby, the earlier position remains intact.



✓ Sometimes, criticism against the role of generalist also arises from the resultant violation of the principle of 'unity of command', for instance, in a democratically decentralised administration. Thus, an integrated approach to all activities with a bearing on rural development in Maharashtra and Andhra Pradesh has intercepted the generalist between the heads of development departments and their field agencies at the district level. Consequently, the specialist is now required to serve two masters—the generalist administrator and the technical boss—in addition to the popular representatives. Further, due to this interception of a generalist administrator between the headquarters and field agencies without giving any effective say to the heads of development departments in the supervision of generalist administrator, a serious gap has arisen in the hierarchical arrangement at the State administration. For the latter do not have adequate control over the former.

Moreover, the present practice of choosing any IAS officer for the post like the Chief Executive Officer of *Zilla Parishad*, will not fill the bill. If officers from this cadre have no faith in or sympathy with local democracy or aptitude for rural development administration, they fail to be of much use to the institution where they are posted. This gives rise to a basic question of professionalisation of the civil service. If the generalists are to be effective in development-oriented administration, it is desirable to encourage their specialisation in areas of their personal likes and to post them in positions where their specialisation is meaningful.

Finally, it may now be desirable to examine the actual role of the specialist in the exercise of authority in an organisation headed by a generalist. In the first place, it may be noted that the primacy of the generalist administrator is contrary to all the trends operating in the civil service. With the increasing dependence of development administration on science and technology, neither specialists nor generalists can be the servants of the other since there must be a thorough mixing of scientific and political considerations in the determination of policy.\* Accordingly, the Fulton Committee has favoured the idea of allowing the specialists to have direct access to the Ministers. In Panchayati Raj, the Committee system ensures the pooling of knowledge and experience of the politicians, administrators and technocrats for arriving at decisions. Although their relationship may appear to be hierarchical, the traditional theory that authority flows from top to bottom will have to be reinterpreted, if not completely replaced. The man occupying the higher position in the administrative hierarchy cannot give directions unilaterally in an organisation charged with development activity. He depends on the advice of the functionaries occupying comparatively lower

\*See D. Horning, "Science and Government", *Proceedings of the American Academy of Political Science*, 1966, as quoted in the Civil Service, Col. 5 (2), Fulton Committee, 1966-68, p. 1138.

position, for discharging his functions. In other words, since authority flows from function and function is actually performed by the specialist, a significant segment of authority lies with the specialist just as authority flows from coordination which is the primary attribute of a generalist. In other words, authority is now shared by the generalist and the specialist. As referred to earlier, if the generalist exercises sanction-authority, the specialist enjoys advice-authority. If knowledge is power and when the generalist and specialist are in possession of the requisite segments of knowledge, power is shared by both. In short, in development administration, the pressure for increased specialisation on the one hand, and the pressure for greater coordination on the other hand, are to be accommodated with a view to replacing the present superior-subordinate relationship with a new concept of partnership. Indeed, the generalist and the specialist along with the elected functionary constitute the 'trimurthi' of development administration.

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## THE "POLICY VS. ADMINISTRATION" ARGUMENT REVISITED

R. I. McLaren

AS any student of public administration knows, the "policy vs. administration" argument has been around for some time, and some scholars would even claim that it is now dead.<sup>1</sup> In fact, the writer can well expect that many people will groan silently when they see the title of this article. However, on the assumption that where there is smoke, there must be fire, it seems a valid proposition to delve into this area once again. Perhaps a more systematic study of the argument can lead to conclusions that will at least lay aside the debate, even if not the topic. It is the purpose of this article to describe such a study; the writer leaves it to others to judge the appropriateness of the conclusions.

But first of all—who says there is any smoke? Didn't Appleby snuff out the argument quite a while ago when he stated that public servants were involved in policy-making, as well as administration, both before a bill is passed and also afterwards when the law is enacted?<sup>2</sup> One might have thought so, and yet recent books have relit the debate since it appears again that not everyone is satisfied with the idea that public servants are involved in policy-making when they are involved in administration.<sup>3</sup> In general, one could conclude that those working in the government, either as politicians or as bureaucrats, always claim that the public servant separates policy-making from administration, while the academic writers, not beholden to the public's values or to the public's votes, are the main supporters of the contention that the two roles are inseparable. For example, the following debate can be cited:

MOAK: "In the few times that I have been in public office, I spent more than half my time trying to influence public policies. During

<sup>1</sup> The "politics vs. administration" argument is a name often used for the same matter, but I consider this to be a less appropriate title as the debate has really centered around whether or not civil servants are involved in policy-making. Thus, I leave the term "politics" to be used to describe the machinations of elected officials (although I recognize that others would not make this distinction).

<sup>2</sup> Paul Appleby, *Policy and Administration* (University, Ala.: University of Alabama Press, 1949), pp. 7-90.

<sup>3</sup> e.g., James C. Charlesworth (ed.), *Theory and Practice of Public Administration: Scope, Objectives, and Methods*, Monograph 8 (Philadelphia: The American Academy of Political and Social Science, 1968); Louis C. Gawthrop, *The Administrative Process and Democratic Theory* (Boston: Houghton Mifflin Company, 1970).

that use of time, I do not think that I was engaged in public administration. I think that I was engaged in another process—that of policy-development."

BAILEY: "Well, Len, all I can say is that the world as you understand it and the world as I understand it are not the same worlds. . . I know of no experience in administration which I have had personally where it was possible for me to distinguish between public administration and public policy making."<sup>4</sup>

Is it purely the subjective biases of individuals that keep this debate flaming or is it possible that there is some truth on both sides? This writer assumed the latter and will now describe the research that was done in an attempt to isolate the various factors that might lie behind the argument.

## II

The theorists would have us believe that where there is administration, there is policy-making. For example, Frankel writes:

"Information reaches (the decision-maker close to the top) through a series of intermediaries, becoming abbreviated and inevitably distorted in the process. . . A head of government has to rely on condensed reports and memoranda, sometimes solely on their headings which bear only a remote and symbolic relation to reality."<sup>5</sup>

Furthermore, as Appleby or Bailey state, this is just as valid for the formulation stage of legislation as for the enactment stage. The writer accepted this without further proof and tried to determine if it would be just as valid a contention at the international level of government as it was considered to be at the various domestic levels. Any conclusions obtained from the research might then be returned to the domestic levels for further consideration.

The first step in the research was to create a model of the policy-making process. From a combination of sources,<sup>6</sup> a seven-step model was determined, to wit: (1) problem-identification; (2) fact-finding; (3) identifying alternatives; (4) policy-recommendation; (5) negotiation; (6) decision-making; and (7) implementation. The first four steps were considered to be the formulation stage and the research concentrated on these. (The latter three steps

<sup>4</sup> Lennox L. Moak and Stephen K. Bailey, as cited in Charlesworth, *Theory and Practice*, p. 163.

<sup>5</sup> Joseph Frankel, "Towards a Decision-Making Model in Foreign Policy", *Political Studies*, VII (February, 1959), 8.

<sup>6</sup> Specifically—Charles P. Kindleberger, "Economists in International Organizations", *International Organization*, IX (August, 1955), 338; and Dr. E. A. Mauck, Graduate School of Public and International Affairs, University of Pittsburgh.

were ignored because it is generally accepted in both public and international administration that they have a political and/or policy-making role). Questions were then derived to determine what actors were involved at each of the four steps and, more specifically, how were the secretariat officials (or public servants) involved.

This research template was then applied to the policy-making process of the Inter-Governmental Maritime Consultative Organization (IMCO), a UN Specialized Agency in London which is concerned with such things as shipping, maritime safety, and efficiency of navigation, all in the international arena.<sup>7</sup> Between the establishment of IMCO in 1958 and the end of 1971, the secretariat had grown only to the point where it had 40 professional-level and 73 general-level personnel, a small number in comparison with most other Specialized Agencies. During this period, the organization had hosted conferences leading to nine International Conventions while its General Assembly, composed of representatives from the member-governments, had passed 258 resolutions. Ninety-four of the latter were considered to be politically significant (*i.e.*, they were concerned with any of the five original purposes of IMCO, and they determined or recommended an action for the member-governments to undertake, or adopted a definition to help regulate international shipping) and these, together with the nine International Conventions, were considered to be the "enactments" of the policy-making process upon which the research would concentrate. Documents were then studied and interviews were conducted to determine whether and how the secretariat officials were involved in a policy-making manner in the formulation of these "enactments".

### III

The major result of the research was to determine that the secretariat officials were rarely, if ever, involved in the policy-making process even as they conducted their administrative tasks.<sup>8</sup> In the problem-identification stage, it could be seen that these particular officials were never the instigators or recognizers of a problem situation which the Organization then took measures to resolve with an international convention or an assembly resolution. Nor, after others had identified the problem, did the secretariat delineate the area, making policy through determining what should be included or excluded in the matter. In the main, the member-governments were the key actors at this stage of the policy process while the secretariat officials took no part.

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<sup>7</sup> Inter-Governmental Maritime Consultative Organization, *Basic Documents I* (London: I.M.C.O., 1968), p. 8.

<sup>8</sup> Details of the study can be found in Robert Irvine McLaren, "An Evaluation of a Secretariat's Political Role Within the Policy Process of an International Organization—the Case of IMCO" (unpublished Ph. D. dissertation, University of Pittsburgh, 1972).

In the fact-finding stage, the result was the same. In general, one could say that the amount of data that can be collected concerning one problem is almost infinite; a judgement must always be made by someone or some body as to how much data needs to be collected for that one problem. However, in IMCO, it was never the secretariat officials who entered the policy-making process through making that judgement. The "circulation list" for IMCO is determined by the "Vienna Formula"<sup>9</sup> and cannot be altered by the secretariat. Nor did the secretariat officials compose the questionnaires; the secretariat mailed the forms. If there were limitations on the fact-finding, it was not remedied by secretariat action.

In identifying the alternative solutions to the problem, the role of the secretariat officials could again be said to be minimal. With regard to the international conventions, it was the member-governments that drafted the proposed texts, that suggested the necessary committee structure for the conferences, and that arranged the agendas for these meetings. These possible entry-points for secretariat policy-making were explicitly denied to the officials by the representatives of the member-governments.<sup>10</sup> For the assembly resolutions, only one [Resolution A.50 (III)] could be said to have emanated from the secretariat. However, it was subsequently altered by the member-governments in an ensuing debate, so that whatever policy-making role could be ascribed to the secretariat for this action only amounted to that which was explicitly permitted to them.<sup>11</sup> The secretariat was involved as well in drafting the major resolutions, but the extent of this effect upon the policy process was not substantial as the member-governments were responsible for the actual wording or else, more often than not, amended the wording before adopting it. It could be seen that IMCO works through such an elaborate arrangement of committees, sub-committees, working groups, etc., all composed of member-government representatives, that the secretariat officials do not have much opportunity for policy inputs.

Finally, there is the policy-recommendation stage. It is obvious from the amount of involvement of the member-governments in the previous three stages that the secretariat was not in a position to make a formal and explicit recommendation to the organization concerning a solution to a problem. The member-governments did not appear to want this recommendation and certainly did not ask the secretariat for it. There was no one

<sup>9</sup> The "Vienna Formula" specifies that IMCO communicates with two sets of representatives: (1) Members of the U.N. and its Specialized Agencies and the IAEA and parties to the Statutes of the International Court of Justice; and (2) Observers from such governmental and non-governmental organizations as are normally present at Conferences convened by IMCO-IMCO/A.VII/C.I/WP.I. ANNEX I, p. 2.

<sup>10</sup> See, for example, IMCO/SAFCON/Plenary SR. 1, p. 4 where the Conference President rebuked the secretariat for daring to suggest the terms of reference for the particular Conference Committees.

<sup>11</sup> IMCO/MSV VII/SR. 5, pp. 3-13.

document, then, that ever went forth from the secretariat to a Conference or the Assembly, as there might be from a secretariat to a Cabinet within a national government.

However, there is another possibility by which the same effect could be achieved. This would occur in the summarization of the data, the "facts" that are going to be used. If the secretariat was receiving submissions from the bodies on the "circulation list", and if it was summarizing all of these submissions into one document (or even a few documents), the result would be the same as if it was making a policy-recommendation. That is: communication theory would lead us to expect that each summary document omitted some facts and highlighted others so that, in effect, the result expressed *a* point of view.

Summarization can occur in several ways—in fact, a continuum of possibilities could be suggested. At one pole is the "précis" in which the original information is summarized so that the original statements cannot be recognized; this is the type of summarization that communication theory would "indict" as resulting in a point of view. Next to this on the continuum would be the "paraphrase" in which the original information is interpreted, again often with the result of obliterating the original statements and offering a distinct viewpoint. At the other pole of the continuum is the "collation" in which there is actually no summarization, but only a collecting of all the individual "bits" of information into one composite document with no alternation in the original statements. Finally, between the "paraphrase" and the "collation" would be a composite position, the "summary-plus-originals" method, in which the original statements are paraphrased, or even précised, but the original statements are also appended so that the reader could compare the summary with the original.

These comprise the four major positions on the continuum, and of course, there could be other positions between any of these depending upon the manner in which any set of documents is actually summarized. The major factor is that the policy-making effect of a secretariat would be most evident at the précis position, but would shade away as one moved toward the other pole until there would be no policy-making effect if the secretariat was only collating the documents.

In the case of the IMCO secretariat, it appeared that they operated near the collation position. Each original statement from a member-government or from any other body was in turn circulated to all the other member-governments, especially with regard to the Conventions. [This often led to massive documents of seemingly-ridiculous proportions (for example, one proposed chapter of a many-chaptered Convention had 316 observations



appended to it so that there were 99 pages of reading material for this single chapter alone)<sup>12</sup>, but this was apparently the way the member-governments wanted it done.] In the case of the Assembly Resolutions, the summary-plus-originals method was more often adopted, but this did not significantly alter the secretariat's lack of policy-making effect. In sum, information received by the secretariat was not *précised*, nor was it paraphrased; it was collated and redistributed to the interested parties in its original form, and the secretariat did not attempt to influence policy through these actions.

To summarize the above results, it can be said that this study did *not* show that the secretariat officials had *absolutely* no policy-making effect on the organization's policy process. There are many "informal" methods, such as "lunchtime" or "corridor" meetings,<sup>13</sup> through which the secretariat officials could affect the thoughts of the representatives of the member-governments. This was countered to a certain extent in the study's findings by three factors: (1) the short terms (two to three years) of the IMCO professional civil servants so that they lacked either the tenure or the commitment (that might lead to initiative in instituting ideas) that national civil servants are believed to have;<sup>14</sup> (2) the professional-level civil servants, when they entered the secretariat, probably expanded their knowledge of their area of expertise due to the new, world-wide contacts, so that the expertise they brought from the particular operations of their own national governments was more or less irrelevant;<sup>15</sup> and (3) the limited number of professional-level officials in the secretariat in contrast to the large number of duties of the organization. However, it was not denied completely, and indeed, little attempt was made in the conduct of the research to deny it.

What this study did show was that the "normal" activities of civil servants, such as identifying problems, summarizing documents, gathering data, preparing agendas, *et al.*, did not produce an important policy-making role for this international secretariat, although these activities are expected to do this for the secretariats of national governments. That is: it was seen that it is not just the activities, themselves, that afford a civil service a policy-making role; it is *how* the activities are performed that is important to the determination of the policy-administration argument. The study showed that there are, for example, different ways to summarize documents and different ways to collect data; some of these ways might provide a

<sup>12</sup> IMCO/SAFCON/3.

<sup>13</sup> For an elaboration of this facet, see Chadwick F. Alger, "Personal Contact in Intergovernmental Organizations", in *International Behavior*, Herbert C. Kelman (ed.) (New York: Holt, Rinehart & Winston, 1965).

<sup>14</sup> Tom Busha, Deputy Head, Legal Division, IMCO Secretariat, private interview in London, 17 February 1972.

<sup>15</sup> Capt. Z. N. Sdougos, Head, Marine Safety Division, IMCO Secretariat, private interview in London, 10 February 1972.

policy-making role, but others will not. Perhaps the original debate between the academics and the practitioners arises because the two sides are not really discussing the same problem. Thus, the academics may have a model in their minds concerned with *what* is being done; the practitioners' model on the other hand may be concerned with *how* it is done. The overall result is that there is not really a "meeting of minds", and the debate rages.

#### IV

The obvious conclusion to this study is that the findings of public administration, concerning the secretariats of national governments, were not applicable to the secretariat of one particular international organization. Neither the hypotheses of the communication theorists nor the hypotheses of the decision theorists with respect to the focal position of the secretariat within the policy process were valid for IMCO. The IMCO Secretariat did not control the communication network through "blocking" information, by whatever means or for whatever reason; nor did it make decisions concerning the parameters to be placed on the formulation steps of the policy-making process. The IMCO Secretariat merely carried out the functions and instructions which were assigned to it, according to the traditional definition of "administration". It did not involve itself in the politics of the organization.

The real conclusion to be derived from this study is the awareness of the factors that were present within IMCO which caused it to negate the hypotheses. It may well be that the policy-administration argument should not be decided once and for all in favour of the viewpoint that civil services have a significant policy-making role; it may rather be the case that civil services, either within national governments or within international organizations, only have a significant policy-making role when certain conditions are present. The examination of IMCO, then, suggested that there were four factors that need to be considered before a civil service (or secretariat) can be assumed to have a policy-making effect. These four factors are: (1) the size of the civil service; (2) the expertise of the politicians; (3) whether or not the civil service has executive functions in a post-decision stage; and (4) the personalities of the civil servants. Each of these will be elaborated upon in turn (although some of them are somewhat interwoven). (There are obviously some other factors that could be taken into consideration in the policy-administration argument, such as Headquarters-Field relationships, for example; however, these were not present within IMCO and thus do not arise as a result of this study.)

#### *Size*

One of the most obvious reasons why the IMCO Secretariat did not play a significant policy-making role in the organization's policy process was

that of the small number of the professional-level staff within the IMCO Secretariat. There was usually a 2 : 1 ratio of member-governments to secretariat professionals during IMCO's first 13 years, so that, in effect, two member-governments could have been assigned at any one time to keep a close watch over the actions of each secretariat official. Of course, there is no reason to believe that this was done, but the potential was ominous.

However, the small number of secretariat professionals does not appear to be a complete answer. Secretariats for Parliamentary Cabinets were not necessarily large in numbers of officials when a policy-making role was being attributed to them.<sup>16</sup> It seems that the absolute number of secretariat officials is not the important consideration, but rather the relative number, the number of secretariat officials in comparison to the number of politicians they are serving (either Cabinet members in national governments or member-governments in international organizations). In a large international organization, such as FAO, for example, where the number of professionals is probably at least thirty times the number of member-governments, it would appear less likely that the member-governments could keep a close watch over the actions of the secretariat officials, and the latter would most likely have a more significant policy-making role. [Of course, other considerations might be a part of this as well (such as the desires of the member-governments to allow the secretariat a policy-making role); "size" is not being offered as an exclusive condition.]

### *Expertise*

Tied into the question of the small size of the professional staff is the expertise of the "politicians" or member-governments who are their superiors. In a national government, the Cabinet members are usually assumed to be "politicos" first and "technicos" second; that is: their field of technical expertise is secondary to their abilities to help elect their political party. Thus, they must usually accept the technical expertise emanating from the Cabinet Secretariat. In an international organization, this is not the case because the Assembly is not a "selected" body (as is a Cabinet); rather, the Assembly contains the total membership and is more analogous to the full Parliament itself. Thus, the member-governments can send technical experts to represent them at the meetings; they do not need to send "politicians" as if it was to a Cabinet.

In the case of IMCO, then, while the member-government representatives to the "highest" policy-making bodies, such as the Assembly, will probably have received policy instructions from their governments [and will certainly

<sup>16</sup> Cf. A.D.P. Heeney, "Mackenzie King and the Cabinet Secretariat", *Canadian Public Administration*, X, September, 1967, 366-75.

want to converse with their home governments when any unexpected policy action arises (e.g., After a proposal by Sweden to invite representatives by means other than the "Vienna Formula", the US said that it could not support this "... as it was a new departure submitted without previous notice."<sup>17</sup>), they will also be sufficiently versed in the technical considerations under discussion, or else be accompanied by technical specialists, that they are on at least an equal footing with the secretariat professionals in matters of technical competence. To the "lower" bodies, such as the various committees and sub-committees, the delegates will be even more likely to be technical specialists rather than "politicians". The result is that the member-governments do not require secretariat ideas;<sup>18</sup> all that they require is that the IMCO Secretariat perform as a "post office-cum-meeting hall" at the request of the member-governments.

It may be that, in a different international organization, the member-governments would not have this domination of technical knowledge over the secretariat. However, this does not appear to have been the case within IMCO, thus suggesting that this factor might be something to be kept in mind when examining the policy-administration question with respect to national, state, or local governments within different countries.

### *Executive Functions*

Presumably, much of the technical expertise that a Cabinet Secretariat would have available would derive from the actions of the national civil service in carrying out or implementing the decisions of the national government. As Appleby noted, the implementation stage requires discretionary measures by civil servants in order to adjust the formal law to the actual situations. Experience gained from making these adjustments would, in turn, require the civil servants to press the Cabinet for new laws or policy decisions. The civil servants would then have a policy-making effect upon the policy process as they obtained new laws from the politicians.

In the case of IMCO, there is no such executive role or set of executive functions. The organization is a "consultative" body, not "an applier of sanctions".<sup>19</sup> There are no "inspectors" or like persons who move around the world ensuring that member-governments put into practice the laws of the Conventions and the recommendations of the Assembly resolutions. In turn, there is no experience being obtained from an implementation stage by

<sup>17</sup> IMCO/A. VII/SR. 6, p. 20.

<sup>18</sup> Marcel Landy, Head, Administrative Division, IMCO Secretariat, private interview in London, February 17, 1972.

<sup>19</sup> Tom Bush a, Deputy Head, Legal Division, IMCO Secretariat, private interview in London, February 17, 1972.

the secretariat officials which would give them the expertise to propose new policies, or even changes in present policies, to the IMCO bodies. National governments have programs to implement; IMCO did not, and thus its secretariat officials were not in a position to determine the effectiveness of IMCO's policy decisions, and thus what changes or new policies needed to be recommended. The problems connected with international shipping went from the ships to the member-governments and then to IMCO; the IMCO Secretariat was not in a position to receive the reports from the ships and thus monitor the issue-area.

### *Personalities*


The final factor that appeared to be relevant as a possible reason why the IMCO Secretariat did not play a significant political role was that of personality. That is: the personalities, characters, beliefs, etc., of the Secretary-General and/or the top officials of the secretariat were such that these persons did not wish to perform their duties in any manner other than the way that they did. However, personality is so much a question of values that it adds little to an objective study of organizations. For example, IMCO's Secretary-General was called "strong" by some observers and "timid" by some others, in either case for doing absolutely the same thing—that is: administering the organization in a non-political way and remaining inside the parameters that the member-governments had authorized. Thus, those whose own values made them think that the Secretary-General was not performing as he should, but instead should lead the organization into new activities, called him "timid"; those who felt that he was performing as he should called him "strong". In each case, it was the *same* Secretary-General doing the *same* things, but with the onlookers evaluating it differently according to their own beliefs.

It may well be that the personality of the top official is the key to the policy-making role (although more-than-adequate cases could be made from this study's three other, above-mentioned factors), but it is not something that can be easily analysed, as can the other factors. It first requires that we express our own values as to what type of role we think the official should play; then we can compare the officials' actions against that. However, anyone who does not agree with our values has a perfectly valid right to reject our conclusions—and so we have not really advanced knowledge as a result.

For public administration, the final conclusion is that attempts to resolve the policy-administration argument should take into consideration: (1) the size of the civil service relative to the size of the political superior; (2) the level of expertise of the civil service compared to that of the political superior; and

(3) the presence or absence of an executive function for the civil service. [The personality of the top officials in the civil service will also be a consideration, but it is both always a consideration (in the actions of any organization) and, at the same time, a nebulous consideration (since it cannot be objectively evaluated), so that its predictive capabilities are limited].

Thus, it appears that public administration can take something from this examination of an international organization (no matter how "exceptional" or "peculiar" IMCO appears to be in its strictly "consultative" performances). That is: it would appear that public administration theorists should include in their discussions of the policy-administration argument the factors that may tend, or not tend, to give the civil service an important policy-making role, such as the three factors present in this study's conclusions, instead of trying to issue a "blanket" statement that civil services are or are not engaged in policy-making. Furthermore, this study has shown that statements that automatically attribute an important political role to a secretariat, due to "summarizing data", "preparing agendas", "gathering data", *et al.*, are not necessarily accurate since these tasks may be performed in different ways, and, in each case, as the IMCO Secretariat demonstrated, there is a non-political way to do it.



## PUBLIC EMPLOYMENT AND THE CONSTITUTION: RECENT JUDICIAL DEVELOPMENTS IN USA\*

David H. Rosenbloom

THE nature of the constitutional position of public employees has recently emerged as one of the more perplexing areas facing the courts and, more generally, public personnel administration in the United States. The growth of public employment, increasing unionization and militance of public employees, and continually expanding dependence of society on public goods and services have combined to make this area of the law a crucial one. Governments at all levels have created a myriad of statutes and regulations to deal with the manifold practical and theoretical problems incurred in attempting to assimilate bureaucratic structures, processes, and requirements with more popularly representative democratic political elements. Although there is a good deal of similarity between such regulations in separate jurisdictions, there are enough differences to make it impossible to say with any degree of certainty exactly what are compelling state interests in this area. In part, this has been due to serious shortcomings in public personnel administrative theory. For example, the United States Civil Service Commission has come to believe that "... restrictions on a Federal employee's activities should not exceed those deemed essential in the public interest..."<sup>1</sup> In fact, however, it has not developed a coherent conception of "the public interest" and its regulations are not infrequently found constitutionally defective in court. At the same time, the courts have also been unable to establish clear doctrines to regulate the relationship between the public employee and public employer. To some extent, the situation on the judicial side is confused because much of the law in this area has been made at the circuit level and, consequently, what the law is sometimes depends on accidents of judicial geography. Nevertheless, analysis of recent judicial holdings involving the constitutional position of public employees indicates that although there is no fully coherent doctrine in this area, a new general approach has emerged.<sup>2</sup>

\*I am grateful to Prof. L. J. Gould and Paul R. Morwood for their assistance in the preparation of this article.

<sup>1</sup> 88 U. S. Civil Service Commission Annual Report, 47 (Jan. 16, 1972).

<sup>2</sup> For an historical account of the development of the constitutional position of federal employees from the Founding period until the late 1960's, see D. Rosenbloom, *Federal Service and the Constitution* (Ithaca: Cornell University Press, 1971).



## THE DEMISE OF THE DOCTRINE OF "PRIVILEGE"

Historically, the constitutional position of public employees was governed by what has become known as the doctrine of privilege. Under this constitutional line of reasoning it was generally accepted that because there was no constitutional right to public employment, and because such employment was voluntary rather than compulsory, public employees had few constitutional rights which could not be legitimately abridged by government in its role as employer. The rationale behind this line of reasoning is still most concisely conveyed by Justice Holmes' oft-quoted statement: "The petitioner may have a constitutional right to talk politics, but he has no constitutional right to be a policeman."<sup>3</sup> Under this line of reasoning, governmental interference with public employees' otherwise normal constitutional rights in the areas of expression, association, equal protection, and procedural due process were sustained.<sup>4</sup> The chief advantages of the doctrine of privilege were its clarity—as long as the only semblance of 'punishment' involved was removal from public employment, virtually any infringement was considered legitimate—and its utility in facilitating popular control of bureaucratic structures.<sup>5</sup>

The doctrine of privilege may have been doomed from the start by its own simplicity. In any event, however, it could not withstand the great increase in public employment that occurred during the last four decades, the development of new conceptions of civil rights and liberties, primarily under the Warren Court, and the widespread abuses associated with the administration of loyalty-security programs in the late 1940's and early 1950's. Its demise has been complete and, in some respects, unseemly. Several courts have taken apparent delight in declaring how thoroughly discredited it has become. For example, in *Board of Regents vs. Roth*, 33 L. Ed. 2d 548 (1972), the Supreme Court stated "... the Court has fully and finally rejected the wooden distinction between 'rights' and 'privileges' that once seemed to govern the applicability of procedural due process rights."<sup>6</sup> Indeed, McAuliffe, the policeman immortalized by Justice Holmes, might well turn over in his grave upon hearing that, "It may no longer be seriously asserted that public employees, including policemen, have no (constitutional) right to (publicly) criticize their employer."<sup>7</sup> But affording public employees

<sup>3</sup> *McAuliffe vs. New Bedford*, 155 Mass. 216, 220 (1892).

<sup>4</sup> See, for example, *Bailey vs. Richardson*, 182 F2d 46 (1950), affirmed by an equally divided court, 341 U.S. 918 (1951); *United Public Workers vs. Mitchell*, 330 U.S. 75 (1947); and *Furman vs. Chicago*, 278 Ill. 318 (1917).

<sup>5</sup> This was particularly evident in the areas of political neutrality, loyalty-security, and in regulations prohibiting public employees from declining to testify on the grounds of possible self-incrimination before hearing bodies of various kinds.

<sup>6</sup> 33 L. Ed. 2d 548, 557.

<sup>7</sup> *Muller vs. Conlisk*, 429 F2d 901, 904 (1970).

constitutional protections *vis a vis* their employer creates new issues, namely, what rights, under what circumstances, and with what procedural safeguards?

It is impossible to summarize the content of the doctrine that has replaced the doctrine of privilege because it is currently being developed both theoretically and practically on a case by case basis. Even the relatively few 'definitive' decisions handed down by the Supreme Court in this area of the law have raised as many or more questions than they have answered. In its barest form, however, the newer doctrine's emphasis is diametrically opposed to that of the doctrine of privilege. It starts "... with the premise that a state (or the federal government) cannot condition an individual's privilege of public employment on his non-participation in conduct which, under the Constitution, is protected from direct interference by the state."<sup>8</sup> Thus, for example, "A citizen's right to engage in protected expression or debate is substantially unaffected by the fact that he is also an employee of the government and, as a general rule, he cannot be deprived of his employment merely because he exercises those rights. This is so because dismissal from government employment, like criminal sanctions or damages, may inhibit the propensity of a citizen to exercise his right to freedom of speech and association."<sup>9</sup> Moreover, "... whenever there is a substantial interest, other than employment by the state, involved in the discharge of a public employee, he can be removed neither on arbitrary grounds nor without a procedure calculated to determine whether legitimate grounds do exist."<sup>10</sup> The public employee, therefore, has constitutional rights which cannot be abridged by government in its role of employer. In the absence of further guidance, however, the newer doctrine, perhaps best labeled the doctrine of "substantial interest", remains theoretically unclear and itself threatens to be arbitrary in its application. In the remainder of this article, recent decisions under the doctrine of substantial interest in the areas of major concern to public personnel administration are discussed.

#### PROCEDURAL DUE PROCESS

The fundamental questions with regard to procedural due process have become whether the Constitution requires that public employees be provided with the reasons for adverse personnel actions and an opportunity to rebut them, or the former alone, or, barring some infringement on liberty or property, nothing at all. In the latter instance, the concepts of liberty and property become crucial. Diversity of opinion on these matters has been rife. In *Drown vs. Portsmouth School District*, 435 F2d 1182 (1970), it was held that, "... the interests of the non-tenured (public school) teacher in knowing

<sup>8</sup> *Gilmore vs. James*, 274 F. Supp. 75, 91 (1967).

<sup>9</sup> *Pickering vs. Board of Education*, 391 U.S. 563, 574 (1968).

<sup>10</sup> *Birnbaum vs. Trussell*, 371 F2d 672, 678 (1966).

the basis for his non-retention are so substantial and that the inconvenience and disadvantages for a school board of supplying this information are so slight as to require a written explanation, in some detail, of the reasons for non-retention, together with access to evaluation reports in the teacher's personnel file."<sup>11</sup> *Orr vs. Trinter*, 444 F2d 128 (1971), involved similar questions, but reached an opposite conclusion: "We hold that the failure to give a reason for the refusal to rehire, or to grant a hearing in connection therewith, standing alone, is not constitutionally impermissible conduct on the part of the Board of Education."<sup>12</sup> In *Hunter vs. Ann Arbor*, 325 F. Supp. 847 (1971), the *Drown* reasoning was expanded and a hearing required:

"... the Constitution protects a governmental employee from a patently arbitrary or discriminatory discharge, since it protects every citizen from harm caused by discriminatory or arbitrary governmental actions. The conclusion that a hearing is necessary in connection with a discharge is in actuality a conclusion that unless such a procedure is afforded, no one will know whether the action taken by the government was discriminatory or arbitrary, and no protection will be given to the employee's right not to be so discharged."<sup>13</sup>

In *Thaw vs. Board of Public Instruction*, 432 F2d 98 (1970), however, it was held that "While asserting no violation of constitutional rights on his own, appellant argues that a hearing must be held to assure that the 'real basis for separation is (not) (*sic*) bottomed on conduct that is or should be constitutionally protected.' We cannot agree. . . . It *would* be too much to ask the school board to hold a hearing every time it determines not to renew the contract of a probationary teacher, or even every time a terminated teacher requests a hearing without alleging unconstitutional action."<sup>14</sup>

The Supreme Court attempted to resolve some of these differences in *Board of Regents vs. Roth*, *supra* (1972), and *Perry vs. Sindermann*, 33 L. Ed. 2d 570 (1972), a companion case. *Roth* involved an untenured assistant professor of political science at the University of Wisconsin at Oshkosh whose one-year appointment was not renewed. The University's rules did not provide for a statement of reasons, review, or appeal. Roth claimed that procedural and substantive due process were abridged by his non-renewal. In addressing the procedural question, the Supreme Court, per Justice Stewart, attempted to delimit and define the applicability of due process in this area: "The requirements of procedural due process apply only to the deprivation of interests encompassed within the Fourteenth Amendment's

<sup>11</sup> 435 F2d 1182, 1185.

<sup>12</sup> 444 F2d 128, 135.

<sup>13</sup> 325 F. Supp. 847, 855.

<sup>14</sup> 432 F2d 98, 99-100.

protection of liberty and property. When protected interests are implicated, the right to some kind of prior hearing is paramount. But the range of interests protected by procedural due process is not infinite."<sup>15</sup> Stewart identified four major grounds which would require procedural due process. One was where removal or non-renewal was made in retaliation for the exercise of constitutional rights such as freedom of speech or assembly. In addressing this point, the Court found that: "There might be cases in which a State refused to re-employ a person under such circumstances that interests in liberty would be implicated. But this is not such a case."<sup>16</sup> It was not such a case because although Roth had been publicly critical of the University administration, the allegation that he was not rehired for this reason was not before the Court. A second ground which would provide procedural due process protection was reputation. Stewart reasoned that:

"The State, in declining to rehire the respondent, did not make any charge against him that might seriously damage his standing and associations in his community. It did not base the non-renewal of his contract on a charge, for example, that he had been guilty of dishonesty, or immorality. Had it done so, this would be a different case. For '(w)here a person's good name, reputation, honor or integrity is at stake because of what the government is doing to him, notice and an opportunity to be heard are essential. . . .' In such a case, the process would accord an opportunity to refute the charge before University officials."<sup>17</sup>

Thirdly, and perhaps not fully distinguishable, a public employee would have a right to procedural due process if a dismissal or non-renewal somehow foreclosed his ability to secure other employment. In short, "It stretches the concept too far to suggest that a person is deprived of 'liberty' when he simply is not rehired in one job but remains as free as before to seek another."<sup>18</sup>

Finally, if one had a property right or interest in a position, due process would be required before employment could be terminated. But, "To have a property interest in a benefit, a person clearly must have more than an abstract need or desire for it. He must have more than a unilateral expectation of it. He must, instead, have a legitimate claim of entitlement to it."<sup>19</sup> Thus, in the closely related *Perry* case, the Court found that Sindermann, also a state college teacher, had a right to be heard on whether ten years' continuous tenure created *de facto* tenure. In so doing, Stewart indicated

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<sup>15</sup> 33 L. Ed. 2d 548, 556-557.

<sup>16</sup> *id.* at 558.

<sup>17</sup> *id.*

<sup>18</sup> *id.* at 560.

<sup>19</sup> *id.* at 561.

that there could be "... an unwritten 'common law' in a particular university that certain employees shall have the equivalent of tenure."<sup>20</sup> In sum, if dismissal does not infringe upon the exercise of constitutional rights such as freedom of expression, impair reputation, or otherwise significantly limit the ability of a public employee to seek other employment, or abridge a property right or interest, then procedural due process is not constitutionally required.

The question immediately arises, however: How is the dismissed public employee to know whether his constitutional rights were infringed, if he is not given the reasons for the adverse action? Indeed, Justices Douglas, Brennan, and Marshall asked this question in dissent. As Marshall expressed it:

"It may be argued that to provide procedural due process to all public employees or prospective employees would place an intolerable burden on the machinery of government.... The short answer to that argument is that it is not burdensome to give reasons when reasons exist. Whenever an application for employment is denied, an employee is discharged, or a decision not to rehire an employee is made, there should be some reason for the decision. It can scarcely be argued that government would be crippled by a requirement that the reason be communicated to the person most directly affected by the government's action."<sup>21</sup>

In practice, then, it appears that *Roth* will place a difficult burden of proof on public employees not enjoying job protection and therefore allow public personnel administrators considerable freedom in dealing with them.

*Roth* and *Sindermann* provide some guidance in an area in which it has been almost totally lacking, but it appears that ambiguities and contradictions are likely to persist. For example, what constitutes a charge that might seriously and adversely affect one's standing and associations in the community? In *U.S. vs. Rasmussen*, 222 F. Supp. 430 (1963), it was held that a hearing providing for confrontation and cross-examination was required in the removal of a county office manager from the Agricultural Stabilization and Conservation Service for having engaged in fraud. In *Birnbaum vs. Trussel*, *supra*, it was held that a doctor removed from the staff of a public hospital for being a racist had a right "... to have notice of the charges against him and to a hearing on these charges before being dismissed."<sup>22</sup>

<sup>20</sup> 33 L. Ed. 2d 570, 580.

<sup>21</sup> 33 L. Ed. 2d 548, 569.

<sup>22</sup> 371 F2d 672, 677.

Similarly, in *Hostrop vs. Board of Junior College District No. 515*, 471 F2d 488 (1972), it was held that

"A person is deprived of 'liberty' if the state damages his standing in the community by charging him with an unsavory character trait such as dishonesty or immorality. Plaintiff's complaint alleges facts showing an attack by defendants on his veracity, for the list of charges which the defendants submitted to justify his dismissal accused him of misrepresentations, supplying false information, and withholding important information. In such a case, due process must provide notice and an opportunity to refute such charges."<sup>23</sup>

In *Lipp vs. Board of Education*, 470 F2d 802 (1972), however, it was concluded that "Plaintiff did allege that his reputation was damaged as a result of his being labeled 'anti-establishment' in the efficiency rating. But not every remark which may arguably affect one's reputation violates due process if made by a government official without a hearing. . . ."<sup>24</sup>

The *Lipp* decision does not necessarily contradict any of the others, although conceivably one might be better off being labeled a racist than called 'anti-establishment,' but it does suggest that by requiring the courts to assess the degree of damage to one's future employment possibilities and standing and associations in the community, *Roth* is likely to lead to a diversity of assessments. This is true not only with regard to questions of character and political and social attitudes, but also those concerning position, age, and perhaps other factors. Thus in *Hunter vs. Ann Arbor*, *supra*, it was held that future employability was enough of an interest to require a hearing for an official dismissed for absenteeism, gross insubordination, and extra-employment activities which interfered with his on-the-job performance. The court reasoned that future employment "... is an interest which every employee has and which can be adversely affected by termination. It is, however, particularly susceptible to damage in the case of a person who is seeking employment in high levels of city government, where employability is highly dependent upon professional reputation and past employment performance and where employers can properly demand the fullest disclosure of an applicant's personal and employment history."<sup>25</sup> Relatedly, in *Olson vs. Regents*, 301 F. Supp. 1356 (1969), a case involving the dismissal of a maintenance man from the University of Minnesota, it was concluded that "... plaintiff was 59 years of age and had been employed by the University for over 14 years. His chances for employment elsewhere are therefore minimal after his discharge by the University."<sup>26</sup> And that because University

<sup>23</sup> 471 F2d 488, 494.

<sup>24</sup> 470 F2d 802, 805.

<sup>25</sup> 325 F. Supp. 847, 854.

<sup>26</sup> 301 F. Supp. 1356, 1362-1363.



regulations prohibited removals except for just cause, he had a right to advance notice of termination, a statement of reasons for it, and an opportunity to respond to them.

Another question posed by *Roth* and *Sindermann* is what constitutes a common law equivalent to tenure that would provide a public employee with a constitutionally cognizable property interest. In *Sindermann*, the length of employment was about ten years. In *Cooley vs. Board of Education*, 453 F2d 288 (1972), the court held that employment for 11 years and three months coupled with removal during the school year were enough to require the application of procedural due process in the form of a hearing. Similarly, in *Johnson vs. Fraley*, 470 F2d 179 (1972), it was held that 29 years, and in *Lucas vs. Chapman*, 430 F2d 945 (1970), 11 years, of continuous employment in a school system amounted to *de facto* tenure. In *Ferguson vs. Thomas*, 430 F2d 852 (1970), the court reasoned that: "... a college can create an obligation as between itself and an instructor where none might otherwise exist under the legal standards for the interpretation of contract relationships regularly applied to transactions in the market place if it adopts regulations or standards of practice governing non-tenured employees which create an expectation of re-employment."<sup>27</sup> On the other hand, in *Patrone vs. Howland Local Schools Board of Education*, 472 F2d 159 (1972), eight years' employment on a series of one year certificates was not considered enough to require either a statement of reasons for non-renewal or a hearing.

A final issue is, when procedural due process does require a hearing, what kinds of guarantees of fairness must be provided? Here, too, there have been some contradictory tendencies. In *Rasmussen, supra*, the court required confrontation and cross-examination in a dismissal for fraud. In *Kelly vs. Herak*, 252 F. Supp. 289 (1966), a district court, subsequently overruled by the Circuit Court of Appeals,<sup>28</sup> held that in a removal for violation of regulations, as opposed to inefficiency or insubordination, a public employee had the constitutional right to confront and cross-examine adverse witnesses. In *Ahern vs. Board of Education*, 456 F2d 339 (1972), it was held that a school teacher had a right to notice of the reason for dismissal and "a reasonable opportunity for a hearing at which he or she is able to give testimony and to confront and question adverse witnesses."<sup>29</sup> The court concluded, however, that in the specific case before it these requirements had been met. In *Polcover vs. Secretary Treasury*, 477 F2d 1223 (1973), on the other hand, it was held that an employee, removed for accepting a bribe and failing to report the offer of a bribe, had improperly raised the issue of cross-examination at the end of the hearing process and that

<sup>27</sup> 430 F2d 852, 856.

<sup>28</sup> *Herak vs. Kelly*, 391 F2d 216 (1968).

<sup>29</sup> 456 F2d 399, 402.



confrontation and cross-examination were, therefore, not required. Somewhat similarly, in *Bishop vs. McKee* 400 F2d 87 (1968), it was held that the discharged employee's inability to confront all witnesses was due to her lack of "... any subjective attempt to obtain their presence,"<sup>30</sup> and that therefore her removal was not violative of procedural due process. These cases are distinguishable on several grounds, but from the point of view of public employees and personnel administrators most of the guidance they provide is essentially *ex post facto* in nature and the distinctions they require may prove too subtle to be dealt with by a set of general rules for public personnel administration in large jurisdictions.

Another set of questions concerning due process at the hearing stage revolves around the roles of agency participants. In *Camero vs. U.S.*, 375 F2d 777 (1967), the Court of Claims held that procedural due process prohibited the removal of a federal employee after the agency lawyer participating in the removal hearing, who was in an adversary position, had engaged in *ex parte* communications with those who made the ultimate decision. Similarly, in *Taylor vs. New York Transit Authority*, 433 F2d 665 (1970), it was reasoned:

"A state administrative disciplinary system can and does directly and substantially affect a man's livelihood and career pursuits. Minimal standards of due process require that in cases such as the present, an 'accused' is entitled to an impartial judge, untainted by any connection which might suggest the contrary. . . . (W)hen such a system, as here, fails to provide for the separation of prosecutorial and judicial functions, by allowing one even remotely responsible for initiating and pressing charges leading to dismissal to cast the deciding vote upholding the prosecution, a substantial issue of constitutional due process is raised."<sup>31</sup>

The case, however, was a collateral attack on the removal process and the court held that to allow such attacks "... would be to deliver unnecessary and potentially debilitating blows to legitimate areas of State responsibility."<sup>32</sup> In a somewhat opposing vein, *Allen vs. City of Greensboro*, 452 F2d 489 (1971), held that a board of inquiry into the behaviour of a policeman charged with conduct "unbecoming an officer and a gentleman" could properly combine investigative and adjudicative functions and that there was no constitutional right to confrontation or counsel in such a case. In *Simard vs. Board of Education*, 473 F2d 988 (1973), the combination of collective bargaining and personnel decisions was found to be constitutionally permissible. Again,

<sup>30</sup> 400 F2d 87, 88.

<sup>31</sup> 433 F2d 665, 671.

<sup>32</sup> *id.*

distinctions may be drawn, but overall there is likely to be a good deal of confusion as long as this aspect of the doctrine of substantial interest is worked out primarily on a case by case basis.

A final case worth noting is *Fitzgerald vs. Hampton*, 467 F2d 755 (1972). Fitzgerald was a civilian Air Force employee who lost his position due to a reduction in force. Fitzgerald claimed that the RIF was in retaliation for testimony he had given in Congress with regard to cost overruns on the C5A plane. Under civil service regulations, Fitzgerald had a right to a hearing. The Court of Appeals for the District of Columbia held, "We can only conclude that these administrative proceedings are of a quasi-judicial character. . . . Likewise, we are satisfied that due process requires that the Fitzgerald hearing be open to the press and the public."<sup>33</sup> In theory, such a ruling might be applicable to a host of other hearings, including those traditionally closed under security and equal employment opportunity programs.<sup>34</sup>

The development of procedural due process under the doctrine of substantial interest has created several ambiguities. The Supreme Court did not fully clarify standards in *Roth* and *Sindermann* and what is currently required is being worked out largely on a case by case basis in the lower courts. While such a mode of constitutional development is neither unusual nor necessarily undesirable, it provides little comfort for those who have to live most directly with the situation. Thus civil service commissions, public administrators, public employees and their unions are not yet likely to know what the law is with regard to a considerable number of procedural questions in adverse personnel actions.

## SUBSTANTIVE DUE PROCESS

### A. *Non-Partisan Speech*

One of the landmark cases in the demise of the doctrine of privilege was *Pickering vs. Board of Education*, 391 U.S. 563 (1968). The case involved a public school teacher in Illinois who sent a letter to a local newspaper in connection with a proposed tax increase, which was critical of the way in which the local Board of Education and the District Superintendent of Schools had dealt with past proposals to raise revenue for the schools. Pickering was removed, after a hearing, on the ground that the letter was "detrimental

<sup>33</sup> 467 F2d 755, 766.

<sup>34</sup> In passing it should be noted that there have been few cases involving the issue of a timely hearing, but that in *Francais vs. Bushell*, 325 F. Supp. 531 (1971), and *Polcover, supra*, a 5 and 37 month period between the initiation of the adverse action and its conclusion were upheld.

to the efficient operation and administration of the schools of the district."<sup>35</sup> Furthermore, it appeared that some of the statements in *Pickering's* letter were false. The Supreme Court, per Justice Marshall, held that the removal was in violation of the Fourteenth and First Amendments. While asserting that "... it cannot be gainsaid that the State has interests as an employer in regulating the speech of its employees that differ significantly from those it possesses in connection with regulation of the speech of the citizenry in general," Marshall concluded that "In these circumstances ... the interest of the school administration in limiting teachers' opportunities to contribute to public debate is not significantly greater than its interest in limiting a similar contribution by any member of the general public."<sup>36</sup> But when do state interests outweigh those of individual employees as citizens? Marshall identified six grounds upon which such a conclusion might be drawn:

- (1) The need for maintaining discipline and harmony in the work force.
- (2) The need for confidentiality.
- (3) When the employee's position is such that his statements or false accusations might be hard to counter due to his presumed greater access to factual information.
- (4) When statements impede the employee's proper performance of duties.
- (5) When statements are so without foundation that the individual's basic capability to perform his duties comes into question.
- (6) When a close and personal working relationship, calling for personal loyalty and confidence is jeopardized.

In applying *Pickering*, the courts have developed a fairly consistent pattern. In the first place, some forms of expression by public employees have been considered to be unprotected by the Constitution. For example, in *Clark vs. Holmes*, 474 F2d 928 (1972), it was held that, in order to fall within the ambit of *Pickering*, the public employee had to talk about matters of public concern. Similarly, in *Chilwood vs. Feaster*, 468 F2d 359 (1972), it was found that: "Some of the affidavits refer to what seems to be bickering and running disputes with the department heads. We do not intend to suggest that that kind of speech is protected by the First Amendment in the sense that it may not be considered in connection with the termination of the employment relationship."<sup>37</sup> In *Rozman vs. Elliot*, 467 F2d 1145 (1972), removal for taking part in a disruptive demonstration was found to be legitimate and in *Duke vs. North Texas State University*, 469 F2d 829 (1973),

<sup>35</sup> 391 U.S. 563, 564.

<sup>36</sup> *id.* at 568, 573.

<sup>37</sup> 468 F2d 359, 360-361.

"... extremely disrespectful and grossly offensive remarks aimed at the administrators of the University"<sup>38</sup> were considered to be unprotected. Finally, in *Goldwasser vs. Brown*, 417 F2d 1169 (1969), on-the-job statements were held to be unprotected.

Protected speech, on the other hand, has tended to be non-disruptive (indeed, sometimes silent expression) and to concern more general political interests. Thus, in *Peale vs. U.S.*, 325 F. Supp. 193 (1971), and *James vs. Board of Education*, 461 F2d 566 (1972), the wearing of black arm bands in protest of the war in Vietnam was found to lie within the protected area. In *Russo vs. Central School District*, 469 F2d 623 (1972), and *Hanover vs. Northrup*, 325 F. Supp. 170 (1970), silent refusal to salute the flag and recite the Pledge of Allegiance were protected. Finally, in *Donahue vs. Stauton*, 471 F2d 75 (1972), criticism of a public employer, possibly containing falsehoods and half-truths, was found, as in *Pickering* itself, to be protected by the "public's right to know".

A third aspect of the developing pattern with regard to public employee's freedom of expression is related to position. In *Donovan vs. Reinbold*, 433 F2d 738 (1970), it was reasoned that: "The less likely it is that the public will attach special importance to the statements made by someone in a particular position, the weaker is the argument that the state needs special restrictions on false or erroneous statements made by someone in that position to prevent substantial deception of the public."<sup>39</sup> In *Fisher vs. Walker*, 464 F2d 1147 (1972), similar reasoning was used in holding that a fireman, who was president of a union, could be suspended for having falsely criticized an immediate superior and having thereby created a divisive effect on the fire department.

#### B. *Partisan Speech and Activity*

Historically, the most important limitations on public employees' freedom of expression have been those associated with attempts to insure their partisan impartiality. Regulations for political neutrality were first introduced by President Jefferson, but they did not become a fundamental aspect of public personnel practices until the beginning of this century. In general, political neutrality restrictions prohibit public employees from taking an active part in the management, organization, or waging of political campaigns and from making obviously partisan statements. Regulations of this nature were upheld by the Supreme Court in *United Public Workers vs. Mitchell*, 330 U.S. 75 (1947). There the Court, divided 4-3, reasoned: "For regulation of employees, it is not necessary that the act regulated by anything more than

<sup>38</sup> 469 F2d 829, 840.

<sup>39</sup> 433 F2d 738, 743.

an act reasonably deemed by Congress to interfere with the efficiency of the public service,"<sup>40</sup> and "The argument that political neutrality is not indispensable to a merit system for federal employees may be accepted. But because it is not indispensable it does not mean that it is not desirable or permissible."<sup>41</sup>

As the doctrine of privilege became less and less tenable, and after its demise, several courts concluded that the logic of the *Mitchell* case had been hopelessly undermined. In *Mancuso vs. Taft*, 341 F. Supp. 574 (1972), for example, it was held that: "The deference given by the *Mitchell* court to the legislative judgment about restrictions necessary on an individual's First Amendment freedoms for the good running of government has not been subscribed to in subsequent decisions,"<sup>42</sup> and that, "There comes a point where the vitality of a case, though that case has not been expressly overruled, may be seen to have been vitiated by the force of subsequent decisions. I believe that point has been reached."<sup>43</sup> Similar conclusions with regard to political neutrality regulations were reached in *Hobbes vs. Thompson*, 448 F2d 456 (1971), *Fort vs. CSC*, 61 Cal. 2d 331 (1964), *Kinnear vs. San Francisco*, 61 Cal. 2d 341 (1964), *Minielly vs. Oregon*, 242 Ore. 490 (1966), and *Bagley vs. Hospital District*, 421 P. 2d 409 (1966). Opposite conclusions were drawn in *Northern Virginia Regional Park Authority vs. CSC*, 437 F2d 1347 (1971), and *Kearney vs. Macy*, 409 F2d 847 (1969).

The Supreme Court readdressed the issue in *Civil Service Commission vs. National Association of Letter Carriers*, 37 L. Ed. 2d 796 (1973), and *Broadrick vs. Oklahoma*, 37 L. Ed. 2d 830 (1973), a companion case. In *NALC*, the postal union was seeking a declaratory judgment that the Hatch Act, sustained in *Mitchell*, was unconstitutional. The lower court argued that past decisions, "... coupled with changes in the size and complexity of public service, place *Mitchell* among other decisions outmoded by passage of time."<sup>44</sup> It held that the statute was impermissibly vague and over-broad: "The defect lies not in the basic underlying purpose to limit certain partisan political activities by federal employees but rather in its drafting. Prohibitions are worded in generalities that lack precision. There is no standard. No one can read the Act and ascertain what it prohibits."<sup>45</sup> Indeed, disciplinary action had been taken against federal employees for acts ranging from disparaging the president to stating "... unsubstantiated facts about ancestry of a candidate," to failing to "... discourage a spouse's political activity,"

<sup>40</sup> 330 U.S. 75, 101.

<sup>41</sup> *id.* at 100.

<sup>42</sup> 341 F. Supp. 574, 577.

<sup>43</sup> *id.* at 581.

<sup>44</sup> *National Association of Letter Carriers vs. CSC*, 346 F. Supp. 578, 585 (1972).

<sup>45</sup> *id.* at 582.

to voicing "... disapproval of treatment of veterans while acting as a Legion officer in a closed Legion meeting."<sup>46</sup>

The Supreme Court reversed, and somewhat surprisingly, it did so in terms that denied constitutional developments that had taken place over a 26-year period. Speaking for the Court, Justice White stated,

"We unhesitatingly reaffirm the *Mitchell* holding that Congress had, and has, the power to prevent Mr. Poole (an employee involved in the *Mitchell* case) and others like him from holding a party office, working at the polls and acting as a party paymaster for other party workers. An Act of Congress going no farther would in our view unquestionably be valid. So would it be if, in plain and understandable language, the statute forbade activities such as organizing a political party or club; actively participating in fund-raising activities for a partisan candidate or political party; becoming a partisan candidate for, or campaigning for, an elective public office; actively managing the campaign of a partisan candidate for public office; initiating or circulating a partisan nominating petition or soliciting votes for a partisan candidate for public office; or serving as a delegate, alternate or proxy to a political party convention. Our judgment is that neither the First Amendment nor any other provision of the Constitution invalidates a law barring this kind of partisan political conduct by federal employees."<sup>47</sup>

White went on to argue that such a decision would do no more than to "... confirm the judgment of history, a judgment made by this country over the last century that it is in the best interest of the country, indeed essential, that federal service should depend upon meritorious performance rather than political service, and that the political influence of federal employees on others and on the electoral process should be limited."<sup>48</sup> In terms of the balancing approach dictated by *Pickering*, the Court held, "Although Congress is free to strike a different balance than it has, if it so chooses, we think the balance it has so far struck is sustainable by the obviously important interests sought to be served by the limitations on partisan political activities now contained in the Hatch Act."<sup>49</sup> With regard to the question of vagueness, White reasoned that, "... there are limitations in the English language with respect to being both specific and manageably brief, and it seems to us that although the prohibitions may not satisfy those intent on finding fault at any cost, they are set out in terms that the ordinary person exercising ordinary common

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<sup>46</sup> *id.* at 581.

<sup>47</sup> 37 L. Ed. 2d 796, 804.

<sup>48</sup> *id.*

<sup>49</sup> *id.* at 808.



sense can sufficiently understand and comply with, without sacrifice to the public interest."<sup>50</sup>

The latter point was illuminated somewhat in the Oklahoma case which involved Oklahoma state regulations for political neutrality. Justice Brennan dissented partly on the grounds that "For the purposes of this decision, the Court assumes—perhaps even concedes—that the statute at issue here sweeps too broadly, barring speech and conduct that are constitutionally protected even under the standards announced in (*Mitchell* and *NALC*)."<sup>51</sup> Indeed, this assumption was apparently enough to swing Justice Stewart from the majority in *NALC* to the minority in *Broadrick*, thereby paring the majority from six to five. The Oklahoma decision is important because it indicates that the court will allow, and is in effect directing other courts to allow, legislatures and public personnel administrators considerable leeway in developing and implementing programs for political neutrality. This in turn suggests that where there is strong, established, consistent, and coherent policy in the public personnel sphere, it may be more likely to withstand challenge in the courts.<sup>52</sup>

### C. Freedom of Religion

The principle that individuals cannot be legitimately excluded from public employment on the basis of their religious beliefs was established in *Torcaso vs. Watkins*, 367 U.S. 488 (1961), an important case in the demise of the doctrine of privilege. *Torcaso* involved a Maryland statute requiring individuals to declare their belief in God as a condition of holding public office. The Maryland Court upheld the regulation on the ground that "The petitioner is not compelled to believe or disbelieve, under the threat of punishment or other compulsion. True, unless he makes the declaration of this belief he cannot hold public office."<sup>53</sup> The Supreme Court disagreed, stating, "The fact. . . that a person is not compelled to hold public office cannot possibly be an excuse for barring him from office by state-imposed criteria forbidden by the Constitution."<sup>54</sup>

*Torcaso* leaves a number of related issues undecided, but there have been very few additional cases in this area. Perhaps of greatest interest is *Dawson vs. Mizell*, 325 F. Supp. 511 (1971), which involved the question of whether

<sup>50</sup> *id.* at 816.

<sup>51</sup> 37 L. Ed. 830, 846.

<sup>52</sup> It should be noted in passing that in *Illinois State Employees Union vs. Lewis*, 473 F.2d 561 (1972), it was strongly suggested that coerced political activity, the opposite of political neutrality, is unconstitutional.

<sup>53</sup> 367 U. S. 488, 495.

<sup>54</sup> *id.* at 495-496.



a public employer can constitutionally dismiss sabbath observers for refusing to work on Saturday. Dawson, a postal employee, converted to the Seventh Day Adventist sect and was subsequently assigned to a position requiring him to work on Saturdays. He refused and took excessive leave of absence without pay in order to avoid compromising his religious principles. He was advised that he would be removed. The court concluded that while there was an obvious measure of interference with religious freedom involved, "... there is no constitutional prohibition against the defendant insisting that the plaintiff either agree to perform the duties assigned to him or suffer the consequences."<sup>55</sup> Moreover, the court did not find an element of discrimination to be involved because there was no evidence that the same thing would not happen to one who refused to work on Sundays. Under this holding, then, public personnel administrators are not required to make special arrangements for observant members of several religious groups which prohibit working on specific days.

#### D. *Freedom of Association*

Freedom of association is one of the areas in which the courts have provided public employees with clear, consistent, and comprehensive protection. In *Shelton vs. Tucker*, 364 U.S. 479 (1960), the right of public employees to have membership in organizations in general was guaranteed. In practice, the decision left two major questions unanswered. First, can public employees be members of subversive organizations or organizations having illegal objectives? This question was resolved in *Elfbrandt vs. Russell*, 384 U.S. 11 (1966), in which it was held that: "Those who join an organization but do not share its unlawful purposes and who do not participate in its unlawful activities surely pose no threat, either as citizens or as public employees."<sup>56</sup> A second question was whether public employees had a constitutional right to join labour organizations. In *McLaughlin vs. Tilendis*, 398 F2d 287 (1968), it was held that in the absence of legislation to the contrary public employees could not be dismissed for having union membership. This conclusion was carried further in *American Federation of State, County, and Municipal Employees vs. Woodward*, 406 F2d 137 (1969), where it was held that public employees do have a constitutional right to join labour unions and that there is "No paramount public interest..." of the state which "... warranted limiting public employees' right to freedom of association".<sup>57</sup>

The latter cases unavoidably raise the issue of the legitimacy of strikes by public employees, for "The right to strike seems intimately related to the

<sup>55</sup> 325 F. Supp. 511, 513.

<sup>56</sup> 384 U.S. 11, 17.

<sup>57</sup> 406 F2d 137, 140.

right to form labour organizations . . ." because "A union that never strikes, or which can make no credible threat to strike, may wither away in ineffectiveness".<sup>58</sup> Although strikes by public employees have become commonplace in the United States, the courts have consistently held, as in *United Federation of Postal Clerks vs. Blount*, 325 F. Supp. 879 (1971), that "... there is no constitutional right to strike . . ." and that the right to strike "... cannot be considered a 'fundamental' right. . .".<sup>59</sup> It has been concluded, moreover, that "... it is not irrational or arbitrary for the Government to condition employment on a promise not to withhold labour collectively, and to prohibit strikes by those in public employment. . .".<sup>60</sup>

### E. Freedom of Thought

In *Bailey vs. Richardson*, 182 F2d 46 (1950), an important case in the doctrine of privilege, it was held that "... the plain hard fact is that so far as the Constitution is concerned there is no prohibition against the dismissal of Government employees because of their political beliefs. . .".<sup>61</sup> In terms of contemporary public personnel administration the issue of freedom of thought has generally been raised in connection with loyalty oaths. Here too, the courts have been consistent and it is clear that only the most innocuous oaths for public employees have been able to withstand constitutional scrutiny. Thus, loyalty oaths have been found to be unconstitutionally vague or overbroad in *Cramp vs. Board of Public Instruction*, 368 U.S. 278 (1961), *Baggett vs. Bullit*, 377 U.S. 360 (1964), *Elfbrandt vs. Russell*, *supra*, *Whitehall vs. Elkins*, 389 U.S. 54 (1967), *Keyishian vs. Board of Regents*, 385 U.S. 589 (1967), and other cases. Perhaps *Connell vs. Higginbotham*, 403 U.S. 207 (1971), best indicates what is constitutionally permissible at the present time. The case involved a Florida loyalty oath. The first section, which read, "... I will support the Constitution of the United States and of the State of Florida",<sup>62</sup> was upheld. A second clause, however, was found unconstitutional. It required public employees to swear that they "... do not believe in the overthrow of the Government of the United States or of the State of Florida by force or violence".<sup>63</sup> The Court held that, "The second portion of the oath, approved by the District Court, falls within the ambit of decisions of this Court proscribing summary dismissal from public employment without hearing or inquiry required by due process . . . (citations omitted). That portion of the oath, therefore, cannot stand".<sup>64</sup> It appears, therefore, that

<sup>58</sup> *United Federation of Postal Clerks vs. Blount*, 325 F. Supp. 879, 885 (1971); concurring opinion.

<sup>59</sup> *id.* at 883.

<sup>60</sup> *id.*

<sup>61</sup> 182 F2d 46, 59.

<sup>62</sup> 403 U.S. 207, 208.

<sup>63</sup> *id.*

<sup>64</sup> *id.* at 208-209.

in terms of practical application, while a flat ban on the public employment of those unable to subscribe to the first clause is legitimate, little, if anything, more could withstand constitutional scrutiny in the absence of a hearing procedure established to determine precisely what beliefs an individual holds and how these thoughts might adversely affect compelling state interests.

### F. *Sexual Behaviour of Public Employees*

Ever since the late 1940's, governments, and especially the federal government, have taken a greater interest in the sexual behaviour of their employees. Often this interest has been in connection with Loyalty-Security programs. In the 1960's, for example, the following and similar questions were said to be a routine part of some agencies' personnel interviews: "When was the first time you had sexual relations with a woman? How many times have you had sexual intercourse? Have you ever engaged in homosexual activities? . . . in sexual activities with an animal? . . . Did you have intercourse with (your wife) before you were married? How many times?"<sup>65</sup> The question arises, therefore, can a public employee be constitutionally dismissed for off-the-job sexual behaviour?<sup>66</sup> In answer, there has been a considerable divergence of opinion. In *Dew vs. Halaby*, 317 F2d 582 (1963), the removal of an air traffic controller for homosexual activity was upheld. After the Supreme Court granted certiorari, however, Dew was reinstated with back pay and the case was dismissed by agreement of the parties. In *Scott vs. Macy*, 349 F2d 182 (1965), it was held that an applicant for federal employment could not be disqualified for immoral conduct (homosexuality) in the absence of a showing that the activity in question is related to occupational fitness and competence.

These differences have not been resolved by more recent cases. Thus, in 1969, two courts came to opposing conclusions in *Norton vs. Macy*, 417 F2d 1161, and *Virgil vs. Post Office*, 406 F2d 921. The issue was more comprehensively discussed in *Norton*. The case involved a budget analyst (GS-14) in NASA who had been picked up by the Washington, D.C., moral squad after having engaged in suspicious behaviour. He was subsequently interrogated by NASA officials and admitted in having engaged in group masturbation with other males and having had homosexual desires on occasion. NASA began dismissal proceedings on the conclusion that Norton had intended to engage in homosexual activities when he was picked up and that this amounted to "immoral, indecent, and disgraceful conduct" which would

<sup>65</sup> See Rosenbloom, *Federal Service and the Constitution*, p. 212 and William Creech, "The Privacy of Government Employees", 31 *Law and Contemporary Problems*, 413-435 (1966).

<sup>66</sup> Although there is no specific constitutional protection of sexual freedom, there is little doubt that the constitutional concepts of 'liberty' and 'privacy' create restrictions on the government in this area; see, for example, *Roe vs. Wade*, 35 L. Ed. 2d 147 (1973), and *Griswold vs. Connecticut*, 381 U.S. 479 (1965).

justify removal. The Court of Appeals for the District of Columbia, following the reasoning in *Scott*, overturned the removal, ruling that, "... a finding that an employee has done something immoral or indecent could support a dismissal without further inquiry only if all immoral or indecent acts of an employee have some ascertainable deleterious effect on the efficiency of the service."<sup>67</sup> In this case, the Court found that there was no evidence that Norton's behaviour had such an effect on the service, but at the same time it stated,

"Lest there be any doubt, we emphasize that we do not hold that homosexual conduct may never be cause for dismissal of a protected federal employee. Nor do we even conclude that potential embarrassment from an employee's private conduct may in no circumstances affect the efficiency of the service. What we do say is that, if the statute (requiring removals for such cause as will promote the efficiency of the service) is to have any force, an agency cannot support a dismissal as promoting the efficiency of the service merely by turning its head and crying 'shame.' "<sup>68</sup>

In *Virgil*, however, the dismissal of a janitorial assistant who was arrested after being found in the back seat of a car with another male and who admitted unlawful behaviour, was upheld. Although these cases can be distinguished from one another and although the courts have recognized, but tended to avoid constitutional issues, it appears that in the future public personnel administrators will be required increasingly to abstain from making disfavoured off-the-job sexual behaviour a basis for adverse action. Moreover, under *Roth*, removals for homosexuality, 'debauchery', and the like may require procedural due process.

#### EQUAL PROTECTION

In *Fursman vs. Chicago*, *supra*, one of the most extreme decisions in doctrine of privilege, the Illinois Supreme Court held that: "It is no infringement upon the constitutional rights of anyone for a public employer to decline to employ him . . . and it is immaterial whether the reason for the refusal . . . is because the applicant is married, or unmarried, is of fair complexion or dark. . . ." <sup>69</sup> Such reasoning is, of course, no longer acceptable. In *Brooks vs. School District*, 267, F2d 733 (1959), for example, it was reasoned that "... any rule, practice, or custom denying . . . re-employment because of race or color would be discriminatory and in violation of . . . constitutional

<sup>67</sup> 417 F2d 1161, 1165.

<sup>68</sup> *id.* at 1168.

<sup>69</sup> 278 111, 318.

rights."<sup>70</sup> Moreover, today practically all public employees have legal as well as constitutional protections in this area. As in the other areas though, the demise of the doctrine of privilege has generated new issues.

The current approach to equal employment opportunity requires two major practices.<sup>71</sup> First, there is to be no discrimination based on race, color, creed, national origin, or sex. Second, and in the view of many, contradictory, employers must take 'affirmative action' to insure the equality of certain groups. Early in its development, affirmative action referred primarily to recruiting in such a way as to reach population groups that might otherwise be by-passed and to offer on-the-job training to disadvantaged employees. More recently, however, affirmative action has become synonymous with the setting of goals and timetables for the hiring and promotion of members of minority groups and women. The constitutionality of goals and timetables, which many liken to quotas, has yet to be definitively resolved. The issue was presented in *Contractors Association of Eastern Pennsylvania vs. Secretary of Labour*, 442 F2d 159 (1971), in which the constitutionality of the 'Philadelphia Plan', the best known early example of the use of goals and timetables, was upheld. There has been a good deal of philosophic discussion of the questions posed by these practices, but the court argued that "plaintiffs allege that it imposes on the contractors contradictory duties impossible of attainment. This impossibility arises, they say, because the Plan requires both an undertaking to seek achievement of specific goals of minority employment and an undertaking not to discriminate against any qualified applicant or employee, and because a decision to hire any black employee necessarily involved a decision not to hire a qualified white employee. This is pure sophistry".<sup>72</sup>

In *Porcelli vs. Titus*, 431 F2d 1254 (1970), the same basic issue of 'reverse discrimination' was raised. The case involved a challenge by white teachers to the abolition of a promotional list system for those aspiring to be principals or vice-principals. The list system had existed since 1953 and the primary purpose for abolishing it was admittedly to make it easier for blacks to obtain those positions. The constitutionality of the action was upheld on the grounds that the state was furthering the legitimate end of desegregating its school

<sup>70</sup> 267 F2d 733, 735.

<sup>71</sup> On equal employment opportunity at the federal level, see S. Krislov, *The Negro in Federal Employment* (Minneapolis: University of Minnesota Press, 1967); D. Rosenbloom, *The United States Civil Service Commission's Role in the Federal Equal Employment Opportunity Program, 1965-1970* (Washington, D.C.: U.S. Civil Service Commission, December 1970); and Rosenbloom, "The Civil Service Commission's Decision to Authorize the Use of Goals and Timetables in the Federal Equal Employment Opportunity Program," 26 *Western Political Quarterly*, 236-251 (1973).

<sup>72</sup> 442 F2d 159, 176.

system. Whereas *Porcelli* allowed desegregation in this fashion, *Singleton vs. Jackson Municipal Separate School District*, 419 F2d 1211 (1970) required some personnel actions to be based on race in order to further the end of desegregation:

"If there is to be a reduction in the number of principals, teachers, teacher-aides, or other professional staff employed by the school district which will result in a dismissal or demotion of any such staff members, the staff member to be dismissed or demoted must be selected on the basis of objective and reasonable non-discriminatory standards from among all the staff of the school district. In addition, if there is any such dismissal or demotion, no staff vacancy may be filled through recruitment of a person of a race, color, or national origin different from that of the individual dismissed or demoted, until each displaced staff member who is qualified has had an opportunity to fill the vacancy and has failed to accept an offer to do so".<sup>73</sup>

Relatedly, in *Armstead vs. Starkville Municipal Separate School District*, 461 F2d 276 (1972), the constitutionality of a District Court's decision to require a school system to maintain a faculty racial balance of 30 per cent black and 70 per cent white was upheld. As it currently stands, therefore, it appears that affirmative action plans involving goals and timetables are, in general, constitutional.<sup>74</sup>

A related issue is posed by attempts to use racial classification to further effective administration. One of the classic arguments in favour of both compensatory and other discrimination has been that there are some jobs that can best be performed by members of minority groups and that therefore such positions should be reserved for them. In *Baker vs. City of St. Petersburg*, 400 F2d 294 (1968), twelve black policemen contested the constitutionality of police department practices under which only blacks and blacks only were assigned to a zone that was predominantly black in population. The district court found that the "... assignment of Negro officers to the predominantly Negro Zone 13 was not done for the purpose of discrimination but for the purpose of effective administration".<sup>75</sup> The police department argued that blacks could better communicate with and identify other blacks than could whites. The Court of Appeals, however, reversed on the ground that "... a Department's practice of assigning Negroes solely on the basis of race to a Negro enclave offends the equal protection clause of the fourteenth

<sup>73</sup> 419 F2d 1211, 1218.

<sup>74</sup> The issue of minority preference may be resolved by the Supreme Court in *DeFuniis vs. Odegaard*, certiorari granted, 38 L. Ed. 2d 329 (1973), a case involving different standards for the admission of minority and non-minority applicants to the University of Washington School of Law.

<sup>75</sup> 400 F2d 294, 296.

amendment.”<sup>76</sup> Yet the Court went on to say, “We do not hold that the assignment of a Negro officer to a particular task because he is a Negro can never be justified.”<sup>77</sup> Therefore, in this area as in others the constitutional position of public employees remains to be more fully explicated and public personnel administrators have not been given unambiguous guidance by the courts.

Another issue raised by equal employment opportunity concerns the administration of ‘merit’ examinations. Although the validity coefficients of such examinations have generally not been high, a fact which does not *per se* indicate that these devices are *invalid*,<sup>78</sup> it has only been recently that the courts have been actively assessing their rationality and constitutionality. In *Carter vs. West Feliciana Parish School Board*, 432 F2d 875 (1970), the issue was whether the National Teacher’s Examination could be used constitutionally to determine which teachers should not be rehired during a period of reduction of force. The Court avoided a decision on the merits and remanded the case for determination as to whether the examination was racially discriminatory. *Armstead vs. Starkville School District*, 325 F. Supp. 560 (1971), involved a requirement that teachers attain a certain score on the Graduate Record Examination or a Master’s Degree as a precondition for retention in employment. With regard to the GRE, 28 per cent of black teachers and 6.7 per cent of white teachers failed to obtain the minimal passing score as determined by the school system. The court reasoned that, “It is both unreasonable and discriminatory to use ostensibly neutral criteria for employment where those criteria are not substantially related to the job’s requirements and where the criteria disqualify substantially more black applicants than white applicants.”<sup>79</sup> It held that the use of cut-off scores on the GRE created “. . . arbitrary and unreasonable qualifications for employment as a teacher in the Starkville system and therefore violated the Due Process Clause.”<sup>80</sup> A similar result was reached in *Baker vs. Columbus Municipal Separate School District*, 462 F2d 1112 (1972), where the use of a cut-off score on the National Teacher’s Exam was found to exclude proportionately more incumbent black than white teachers. The Court stated, however, that “. . . when a test has a valid function . . . and is fairly applied to all teachers, it outweighs the fact that it may result in excluding proportionally more blacks than whites.”<sup>81</sup>

<sup>76</sup> *id.* at 300.

<sup>77</sup> *id.* at 300-301.

<sup>78</sup> In general, validity coefficients are at about the .25 level and they seldom exceed .50. For a discussion of some of the problems incurred in assessing validity and the importance of examinations in current public personnel thinking, see D. Rosenbloom, “Public Personnel Administration and Politics: Toward a New Public Personnel Administration,” 7 *Midwest Review of Public Administration*, 98-110 (1973).

<sup>79</sup> 325 F. Supp. 560, 570,

<sup>80</sup> *id.*

<sup>81</sup> 462 F2d 1112, 1115,



Interestingly enough, then, public personnel administrators are being required to reassess what has become the corner stone of contemporary public personnel administration, an area of crucial importance which has nevertheless not been adequately developed and analyzed by practitioners.<sup>82</sup>

Equal employment opportunity with regard to sex presents several complex questions. So far the most important of these has been whether mandatory maternity leave or termination policies are constitutional. There was a wide division of circuits on this issue, with the 4th, 5th, and 9th circuits generally upholding, and the 2d, 6th and 10th circuits generally invalidating such policies. In *Struck vs. Secretary of Defense*, 460 F2d 1372 (1971), the Ninth Circuit found no barrier to the honorable discharge of a pregnant Air Force Captain, holding that such termination was not invalid under the Fifth Amendment or in violation of the individual's right to privacy. In *Schattman vs. Texas*, 459 F2d 32 (1972), it was held that mandatory termination, without a guarantee of re-employment, two months before the expected date of birth was constitutional as the employee was not dismissed "... because she was a woman or because she became pregnant but only because her pregnancy was far advanced."<sup>83</sup> In *Cohen vs. Chesterfield Co. School Board*, 474 F2d 395 (1973), a similar case, Judge Haynesworth asked, "How can the state deal with pregnancy and maternity in terms of equality with paternity?"<sup>84</sup> To which the answer was, "It cannot, of course."<sup>85</sup> He concluded, therefore, that mandatory maternity leave at the end of the fifth month of pregnancy was "... not an invidious discrimination based on sex. It does not apply to women in an area in which they may compete with men."<sup>86</sup> In *LaFleur vs. Cleveland Board of Education* 465 F2d 1184 (1972), *Green vs. Waterford Board of Education*, 473 F2d 629 (1973), and *Buckley vs. Coyle Public School System*, 476 F2d 92 (1973), an opposite conclusion was drawn. In *Buckley*, the 10th circuit held that "... the state must demonstrate a compelling interest in order to justify its policy ..."<sup>87</sup> of dismissing untenured pregnant teachers at the end of the sixth month of pregnancy. In *LaFleur* a regulation providing the maternity leave five months before the expected date of birth was held unconstitutional, and in *Green* it was held that "... the Board's maternity leave rule, which arbitrarily forces a physically capable woman like plaintiff to leave her job before required to do so for medical reasons, is discriminatory and that there are no 'legitimate state interests' which the rule's rigid classification sufficiently promotes to justify such discriminatory treatment."<sup>88</sup> The

<sup>82</sup> See Rosenbloom, 7 *Midwest Review of Public Administration*, Sect. I.

<sup>83</sup> 459 F2d 32, 39.

<sup>84</sup> 474 F2d 395, 398.

<sup>85</sup> *id.*

<sup>86</sup> *id.* at 397.

<sup>87</sup> 476 F2d 92, 96.

<sup>88</sup> 473 F2d 629, 636.

issue, however, has been resolved, at least for the present, by the Supreme Court's holdings in *Cohen* and *LaFleur*. There the Court largely followed the *Green* reasoning in concluding that mandatory maternity leave denies equal protection unless it occurs very late in a pregnancy or is directly related to the individual's health.<sup>89</sup>

Finally, the issue of equal treatment for aliens has been raised in the courts. In *Jalil vs. Hampton*, 460 F2d 923 (1972), the Court of Appeals for the District of Columbia remanded a case involving the denial of a resident alien's opportunity to take a competitive examination for federal civil service employment in order to determine whether the regulation had anything to do with the efficiency of the services. *Sugarman vs. Dougall*, 37 L. Ed. 2d 853 (1973), raised the question of the constitutionality of a New York civil service law's provision that "except as herein otherwise provided for, no person shall be eligible for any position in the competitive class unless he is a citizen of the United States".<sup>90</sup> The Supreme Court, per Justice Blackmun held that "... a flat ban on the employment of aliens in positions that have little, if any, relation to a State's legitimate interest, cannot withstand scrutiny under the Fourteenth Amendment."<sup>91</sup> On the other hand, "A restriction on the employment of non-citizens, narrowly confined, could have particular relevance to this important state responsibility, for alienage itself is a factor that reasonably could be employed in defining 'political community'".<sup>92</sup> Thus, whereas a flat ban on the employment of aliens is unconstitutional, aliens can be excluded legitimately from specific positions. Once again, then, the courts have required discretion on the part of public personnel administrators, but have provided only minimal guidance.

### CONCLUSION

Recent developments concerning the constitutional position of public employees have not yet culminated in the formulation of a coherent judicial doctrine. There has not been a reversion to the doctrine of privilege, but at the same time the emergent doctrine remains underdeveloped. It is possible, nevertheless, to identify some emerging patterns of constitutional interpretation and to indicate the probable administrative responses to these.

Perhaps the most important element found in recent cases is the judiciary's reluctance to allow broad general rules to be applied flatly in all instances. The thrust of the emergent law in several of the areas reviewed is

<sup>89</sup> *Cleveland Board of Education vs. LaFleur* and *Cohen vs. Chesterfield County School Board*; See the *New York Times*, Jan 22, 1974, p. 1.

<sup>90</sup> 37 L. Ed. 2d 853, 855.

<sup>91</sup> *id.* at 862.

<sup>92</sup> *id.* at 864.

essentially that neither judicially nor administratively formulated rules should be applied without reference to the merits of individual cases, or at least without regard to differences between categories of public employees. Thus, instead of following the reasoning put forward by Marshall, Brennan, and Douglas in dissent in *Roth*, and that of lower courts in several other cases, a majority of the Supreme Court refused to create a general right for all public employees to be provided with the reasons for their discharges. *Roth*, however, does indicate that public employees do have major procedural due process rights in specific instances where liberty or property is infringed by the state. In *Sugarman*, the Court similarly rejected a flat ban on the public employment of aliens, but at the same time suggested that aliens might reasonably be excluded from certain positions. In *Baker vs. City of St. Petersburg*, the same conclusion was reached with regard to making administrative assignments on the basis of race. In *Cohen* and *LaFleur*, the Supreme Court held that except for regulations applying at a very late stage of pregnancy, mandatory maternity leave provisions had to be geared to each pregnant employee's health. *Pickering* and the cases following it indicate that while some general approaches have emerged, each case must be judged on a multi-dimensional basis that weighs the nature of the remarks, the position, the relationship to superordinates, and the importance of protecting the public's right to be informed. In terms of freedom of association, it is clear that broad exclusions are no longer legitimate and that if the state seeks to exclude people from public employment on the basis of their organization memberships, each case must be judged with regard to the extent to which an individual shares the unlawful or otherwise undesirable goals of an organization to which he belongs. In *Connell*, the Supreme Court left no doubt that the individual's freedom of thought must also be protected by procedural due process and the broad exclusions for anything more than failure to support the Constitution cannot withstand constitutional scrutiny in the absence of an appropriate hearing procedure. The tendency for the courts to require each case to be judged on its own merits can also be found in some of the homosexual cases, including *Scott* and *Norton*. The equal protection cases involving the legitimacy of testing devices also fit this pattern as the thrust of the decisions in this area has been to prevent the use of examinations which, although applied to whole categories of public employees, arbitrarily affect members of different races differently.

The only important exception to the above approach can be found in the area of political neutrality. Here, the trend in the lower courts was much the same, but it was reversed by the Supreme Court in no uncertain terms. Yet, in fact, *NALC* and *Broadrick* are out of step with the major constitutional developments, affecting public employees, of the last decade or so, and it seems best to conclude that the Court has simply created a major exception. Indeed, one gets the impression that political neutrality can stand, even when

couched in rather ambiguous language, because, like baseball, for example, it has become a part of the American way of life. The Court left no doubt that it views political neutrality as fundamental to the U.S. political system and that therefore the state has a very overriding interest in this area. Thus, a flat ban on some forms of political participation is legitimate with regard to all public employees, regardless of position, as long as the prohibited activities are set out in language that can be understood by an ordinary person exercising ordinary common sense.

The emerging approach of requiring judgment on the merits of individual cases, as opposed to allowing the application of broad general rules to public employees as a whole, is likely to have important effects on public personnel administration and bureaucracy in the United States. The immediate impact of the *Roth* decision will probably be to make public personnel administrators reluctant to provide reasons for personnel decisions. Public employees and their unions, on the other hand, are likely to press for legal protection requiring the specification of reasons for adverse actions, where this is not already required by law. Beyond this, however, the recent trend may force public personnel administrators to begin thinking in new terms. Regulations infringing upon the constitutional rights of public employees can no longer stand simply because they are desirable; a compelling state interest for their establishment must exist. Moreover, with the exception of political neutrality, such an interest must be demonstrated not with regard to most public employees, but rather with regard to individual employees in specific instances. This will require public personnel administrators to develop regulations that pertain to more limited categories of employees than has been the case in the past. Similarly, with regard to testing devices, the fact that examinations differentiate between candidates and appear, at least according to commonsense, to obtain the best qualified for public employment will no longer suffice. If they produce discriminatory results with regard to different racial or ethnic groups, and perhaps also with regard to the sexes, they may be unconstitutional, depending upon their validity and how the law develops in this area. In any case, the old civil service reform approach of using examinations to keep out the unfit and to destroy the power base of the spoilsmen is likely to be replaced in the future by selection devices stressing equal opportunity and a relationship to on-the-job performance. Finally, the emerging constitutional law requires public personnel administrators to develop hearing procedures which, in general, must afford the individual employee more procedural safeguards than have prevailed in the past. Open hearings, counsel, confrontation and cross-examination are likely to become more prevalent in the future. More subtly, the reasonability of regulations in their specific applications will have to be judged more independently at the hearing stage if the public employer seeks to avoid subsequent reversal in the courts.

The last point leads to a final conclusion. An analysis of recent judicial developments concerning the constitutional position of public employees leaves little doubt that in the future the courts will play a much greater role in the field of public personnel administration than was the case under the doctrine of privilege. Once it became accepted that public employees do have constitutional rights which cannot be legitimately abridged by dismissal from employment, a larger judicial role was almost inevitable. The emerging approach of judging each case on its own merits heightens this tendency. Politically this is significant because public personnel administration is at the center of public bureaucracy and public bureaucracy is a major, perhaps the major, force in the U.S. political system. Prior to the demise of the doctrine of privilege, however, public bureaucracy was regulated almost exclusively by the legislative and executive branches. In the future, assuming the current trend continues, the judiciary will join the other two branches in this area and thereby will increase the realm of its influence. Perhaps, then, at the broadest political level, the demise of the doctrine of privilege and the emergent constitutional doctrine can best be understood as a response by the judiciary to the growth of bureaucratic power during the past several decades.

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## POLITICIZATION OF BUREAUCRACY: A FRAMEWORK FOR COMPARATIVE MEASUREMENT\*

R. B. Jain

THE emergence of the bureaucratic type of organization in modern governments has laid the formation for a body of civil servants who work for the government as a lifetime career. The very presence of such a professional body of trained men is expected to exert a 'rational' influence on the entire decision-making processes. Consequently, the element of 'rationality' has come to be recognised and emphasised as the characteristic working approach, and is regarded as an outstanding contribution of the modern governmental organization,<sup>1</sup> no matter whether the State is liberal or totalitarian.

As a form of organization, 'bureaucracy' as we all know indicates sophistication in both design and operating methods. It is designed to increase efficiency of performance, and this by the application of reason to the resolution or proportion of every conflict or policy. Governed to a considerable degree by professional standards and likely to value a reasoned approach, the modern career service, under favourable conditions, by and large, functions as a significant support of rational consideration in public policies and their administration.<sup>2</sup>

However, despite the superiority that so-called 'rationality' imparts to a bureaucratic organization, its constant obsession with it seems to have a negative effect, especially when it attempts to stimulate self-sufficiency. Rationality is not only linked to methodological analysis but also to an

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<sup>1</sup> Max Weber, a veritable pioneer, considered rational bureaucracy as a major element in the rationalization of the modern world, and further regarded it as the most important factor in modern social development. However, the concept of bureaucratic rationality has come in for criticism in recent times. There are some who think that existing theories of bureaucratic rationality in public administration literature do not adequately and properly define the concept, therefore, suggest an alternate concept of 'bureaucratic rationality' which they call 'projected rationality'. See for example Sami G. Hajjar, "Towards Understanding the Concept of Bureaucratic Rationality", *The Indian Journal of Public Administration*, New Delhi, Vol. XIX, April-June 1973, pp. 148-62. Also see Martin Albrow, *Bureaucracy*, London, Pall Mall, 1970, pp. 87-91.

<sup>2</sup> Fritz Morstein Marx, *The Administrative State: An Introduction to Bureaucracy*, Chicago, The University of Chicago Press, 1957, p. 25.



objective point of view. "Objectivity, in examining issues, as an occupational habit", observed Professor Marx, "puts value on a retreat from active partisanship. Indeed, in the realm of public administration the career bureaucracy serves as a permanent instrument of government under conditions of changing party control only by acknowledging and adopting neutrality. Such neutrality is the working premise for the loyal support of any lawful government—whatever be its ideological stance. On the other hand, it may and does foster a personal disengagement from any kind of political choice, including the difference between constitutional or unconstitutional means or ends in the actions of the government of the day."<sup>3</sup>

The tradition of the 'neutrality' of the career service, in contrast to the American practice of what came to be known as the 'spoils system' (ended by the Pendleton Act 1883) has often been hailed as the secret of the success of the career-service in Great Britain. Indeed, the concept of 'neutrality' coupled with 'impartiality', 'anonymity' and 'obscurity' have not only become synonymous with the operation of the British Civil Service but are also regarded as "one of the strongest bulwark of democracy",<sup>4</sup> essential to the system of parliamentary democracy where the political complexion of the ruling party is subject to periodic, if not frequent changes.

In recent times, especially after World War II, however, the concept of a neutral bureaucracy has been subjected to vehement criticism in quite a few democracies in the West who had adopted it as a permanent feature of their governmental system. Even the British have become sceptical about the continued utility or validity of the neutral career-service in its ability to implementing the objectives and goals of a welfare state. Ever since the Crichton Down Affair (1954), the British Civil Services came in for a good deal of criticism for its failure to meet the growing demands of a complex welfare state, and for a variety of reasons, its amateurism, rigidity and inefficiency, and more often than not, and quite often for its obstructionist posture especially in the way of the implementation of 'progressive' (mainly due to its being supposedly neutral) policies. Similar criticism is also being heard in the context of many Commonwealth and Continental countries which had been influenced by the tradition of a 'neutral' bureaucracy. This is particularly true in the Indian situation today, where the bureaucracy has been under the stern criticism from the ruling party for not being able to effect the social transformation, envisaged in the Plans and the numerous welfare or progressive legislations. The bureaucracy in India with its background, education and training has isolated itself totally from the masses and thus is unable to keep pace with the rapidly changing socio-economic scene nor is

<sup>3</sup> Fritz Morstein Marx, *op. cit.*, p. 25.

<sup>4</sup> Earl Attlee, "Civil Servants, Ministers, Parliament and the Public" in W.A. Robson (ed.), *The British Civil Service in Britain and France*, London, The Hogarth Press, 1956, p. 16.



able to feel the ambitions or hopes in its veins. That only a 'committed' bureaucracy in place of the old indolent, passive and apathetic and a political one can possibly bring about the desired changes, is now the widely held opinion regarding its role.<sup>5</sup>

The idea of 'bureaucracy' as a neutral instrument in the conduct of public affairs thus stands refuted—and with it also its 'rational' basis of superiority. The new thinking considers that in any system of government, the bureaucracy must be wholly in sympathy with the basic social philosophy of the party in power. In other words 'bureaucracy' is now regarded not as a 'value-free' but as a 'value-laden' instrument of political power. In short, the bureaucracy is being 'politicized'.

The basic question thus arises in which particular direction do the bureaucracies need 'commitment' in the modern time? To what extent is 'politicization' of bureaucracy 'feasible' and/or 'desirable'? Can 'rationalism' and 'professionalism' of bureaucracy be retained along with the hope of commitment sought towards political or social goals? These and many other questions have been raised and attempted to be answered in different ways by scholars, reformers and politicians in the context of their differing systems of government. It is not the purpose of this paper to try to open such discussion and to repeat the arguments all over again, which have already been ably covered.<sup>6</sup>

The purpose of this paper is very limited. Assuming that conditions in modern societies do not favour a rigid application of the concept of a 'neutral' or 'depoliticized' bureaucracy,<sup>7</sup> and that public bureaucracies are unlikely to retain their neutral and strictly professional colour for long and further that pressures for politicization are bound to increase in all governmental systems irrespective of their ideologies (since the fortunes of political leaders are more likely to be intertwined with the bureaucratic performance) is it possible to construct and operationalize certain indices, which make an attempt towards a comparative measurement of the extent of 'politicization' in different bureaucracies?

<sup>5</sup> This was the main contention of Indian Prime Minister Indira Gandhi, when she advocated the substitution of old bureaucracy in India through the so-called "committed" bureaucracy. Not only did she express her dissatisfaction with the performance of bureaucracy, she expressed doubt about the relevance of the basic assumptions underlying the Indian bureaucracy—that of neutrality, impartiality, anonymity, etc., and she alleged that the bureaucrats lacked in "commitment". See *The Hindustan Times*, New Delhi, 1 December 1969.

<sup>6</sup> Many of such arguments have been summarised by civil servants, politicians and scholars in an issue of *Indian Political Science Review*, Delhi, Vol. 5 (October 1970—March 1971). Also see "A Committed Civil Service", *Seminar* (New Delhi), August 1973. The Bibliography on pp. 34-38 is quite comprehensive for further literature in this context.

<sup>7</sup> For an account of the conditions in which a depoliticized bureaucracy has been most effective, see Gerald E. Caiden, *The Dynamics of Public Administration: Guidelines to Current Transformations in Theory and Practice*, New York, Holt, Rinehart and Wilson, 1971, p. 93.

## ATTITUDE OF THE EMPLOYEES OF HINDUSTAN STEEL LIMITED TOWARDS THE PERSONNEL POLICIES

O. P. Minocha

THE term 'employees' attitude' is used in a variety of ways by social scientists.<sup>1</sup> Generally, it refers to the stand employees take on controversial issues; while in the narrower sense, it refers to affective orientations of the employees towards work roles which they are occupying<sup>2</sup> and to the relative importance they attach to different aspects of work situation and work relationship. Implicitly or explicitly, the employees' attitudes usually focus on three classes of phenomena. One of these is cognitive in nature and refers to an employees' information regarding an issue. Another is behavioural, referring to the acts which an individual performs, advocates or facilitates with regard to an issue. The third phenomenon is affective, referring to employees' valuations.<sup>3</sup>

For the purpose of this study 'employees' attitude' refers to the views, reaction and the stand of the employees of the Hindustan Steel Ltd. (HSL) towards personnel policies and practices and their administration.

Despite a number of methodological problems associated with the acquisition of a viable and valid measure of employees' attitude,<sup>4</sup> an increasing number of companies have found that an attitude survey can provide a clear and accurate picture of employees' feelings and reveal many specific relations which do not come to light through ordinary channels.<sup>5</sup> It is also used in checking on 'morale' conditions and finding ways to improve morale

<sup>1</sup> For definitions see also Victor H. Vroom, *Work and Motivation*, New York, John Wiley & Sons, 1964, p. 99; John R. Hinrichs, "A Replicated Study of Job Satisfaction Dimensions", *Personnel Psychology*, Richmond, U.S.A., Vol. 21, No. 4, Winter 1968, p. 479; Edward E. Lawler III, "Job Attitudes and Employees Motivation: Theory, Research and Practice", *Personnel Psychology*, Vol. 23, No. 2, Summer 1970, pp. 228-9 and Harry S. Upshaw, "Attitude Measurement", *Methodology in Social Research*, edited by Hubert M. Blalock, Jr. and Ann B. Blalock, New York, McGraw-Hill Book Company, 1968, p. 60.

<sup>2</sup> Vroom, *op. cit.*, p. 99.

<sup>3</sup> Blalock and Blalock, *op. cit.*, p. 60

<sup>4</sup> For various types of problems which are posed in the employees' attitude surveys see Michael Micklin and Marshall Durbin, "Syntactic Dimensions of Attitude Scaling Techniques: Sources of Variation and Bias", *Sociometry*, New York, Vol. 32, No. 2, June 1969, pp. 194-205.

<sup>5</sup> Morris S. Viteles, *Motivation and Morale in Industry*, London, Staples Press Limited, 1954, p. 221.

and relations within the organisation. It has also proved to be a good method of knowing the training needs of the employees.<sup>6</sup>

This paper purports to study attitude of the employees towards the personnel policies and their administration in the three steel plants of the Hindustan Steel Ltd. The survey was conducted with a view to measure the success and failure of such policies and to locate unsatisfactory feelings and sources of irritation, requiring remedial actions.

#### RESEARCH DESIGN AND TECHNIQUES

The attitude of the employees towards various personnel policies and their administration was studied mainly on the basis of a commonly used method<sup>7</sup>—questionnaire—substantiated by interviews and discussions with the respondents.<sup>8</sup> After a preliminary study of the personnel policies and practices of the Hindustan Steel Ltd., a questionnaire was prepared.<sup>9</sup> The questionnaire consisted of three major parts, namely, the personal particulars of the respondents, their views on various personnel policies and practices and the portion where the respondents were asked direct questions about their attitude towards the organisation, employees and other allied matters. Most of the questions were framed in such a way as to provide 'multiple-choice' answers; while in some cases 'open-ended' questions could not be avoided.

The universe—Hindustan Steel Ltd.—for the purpose of the stratified sample was divided into Rourkela, Bhilai and Durgapur Steel Plants and the Head Office. These units were further divided into the following three levels of employees:

- (i) Non-executives, Chargehands only, falling immediately below the executive level in the line of promotion (in the scales of Rs. 325-575 and Rs. 375-800);
- (ii) Junior-level executives (in the scales of Rs. 400-950, Rs. 700-1150 and Rs. 900-1250/1100-1400); and

<sup>6</sup> For extent of use of "Employee-Attitude Surveys" by industry see Viteles, *op. cit.*, pp. 221-2.

<sup>7</sup> *Ibid.* pp. 223-30.

<sup>8</sup> Some of the respondents, however, insisted on keeping the questionnaire with them for response, a few refused to reply to many of the questions and some others used delaying tactics.

For issues and problems see Glenn P. Fournet, M.K. Distenano, Jr. and Margaret W. Pryer, "Job Satisfaction: Issues and Problems", *Personnel Psychology*, Vol. 19, No. 2, Summer 1966, pp. 165-80.

<sup>9</sup> Draft questionnaire was based on the one used by Nigel Walker for his study of "Morale in the Civil Service" see Nigel Walker, *Morale in the Civil Service: A Study of the Desk Worker*, Edinburgh, University Press, 1961, Appendix B, pp. 282-94.

- (iii) Middle-level executives (in the scales of Rs. 1300-1600 and Rs. 1600-1800).

A ten per cent sample of the population existing in each of the above mentioned cells was taken. Having received back the questionnaires duly filled,<sup>10</sup> it was found that the employees of production, maintenance, service, construction and administrative departments were sufficiently represented. As such, no need was felt to further stratify the sample.

The response to the questionnaire was encouraging as 295 (87.3 %) out of 338 employees sent their replies. The response was the highest (88.2 %) in Rourkela, followed by Durgapur (88.0 %) and Bhilai (85.1 %). The middle level executives responded heavily (97.0 %), followed by junior-level executives (87.3 %) and non-executives (83.5 %).

#### FINDINGS AND DISCUSSION

The attitude of the employees towards only such aspects of personnel policies and practices, as were found to be important in the preliminary study, is being discussed. Even among those only such findings are being explained as were considered essential or which showed some significance for the purpose of this study.

##### *Attraction to Job*

Of the six factors, listed in the questionnaire, the employees were asked to mention the two most potent and the two least potent ones responsible for attracting them to their present jobs in HSL. On an analysis of the replies, it was found that almost the same factors had attracted the employees of all the three plants. It, however, revealed that employees at different levels were attracted by different factors.

The factors were given the following ranking by the employees of the three levels. (Table 1)

Thus, 'security of service' has been the main factor of attraction for the non-executives and junior-level executives. It is followed by the 'national outlook of the organisation' and 'foreign training'.<sup>11</sup> For the middle-level

<sup>10</sup> The replies were coded into categories from 0 to 9 or less for the purpose of punching cards. The coding could not be done earlier, firstly, to avoid confusion to the respondents and secondly, some of the questions were 'open-ended'.

Computer 620 on Fortran IV language and frequency distribution machine were used to analyse the replies in desired matrices.

<sup>11</sup> The Hindustan Steel Ltd., during 1956-1970, has trained 1937 engineers and 686 operators abroad.

TABLE 1

<i>Factors</i>	<i>Ranking by</i>		
	<i>Non-Executives</i>	<i>Executives (Junior)</i>	<i>Executives (Middle)</i>
(a) Foreign training	3	3	3
(b) National outlook of the organisation	2	2	1
(c) Pay	5	4	4
(d) Promotion prospects	4	5	2
(e) Security of service	1	1	5
(f) Social life in the organisation	6	6	6

executives 'national outlook of the organisation', followed by 'promotion prospects'<sup>12</sup> and 'foreign training' have been the major factors of attraction. This demonstrates that HSL during its early phases was able to attract persons because of elaborate 'foreign training' and good promotion opportunities. Though other factors have not changed, the promotion prospects, having declined, no longer attract the junior-level executives. Since 1967, with lesser job opportunities for fresh engineers, 'security of service' is being regarded as the main factor of attraction by the executives at junior levels as well as by the non-executives.

The ranking was further analysed on the basis of 'sources of staffing'. The same is indicated in Table 2. Thus, the employees who were serving in the Central Government and State Governments, before joining HSL, did not attach that much importance to 'security of service' as was done either by the employees earlier working in 'private concerns' or those 'not in service'. This is because of the fact that the employees working in the Central Government, State Governments and public undertakings were not much worried about 'security' of their service. The Hindustan Steel Ltd. attracted them primarily because of 'foreign training' and 'promotion prospects'. These factors have, however, not been important for the employees coming from the private concerns or those 'not

<sup>12</sup> Like many other public undertakings there have been many cases of quick promotions in HSL. See, India, Estimates Committee (Third Lok Sabha), *Fifty-second Report: Personnel Policies of Public Undertakings*, New Delhi, Lok Sabha Secretariat, March 1964, p. 59; India, Committee on Public Undertakings (Third Lok Sabha), *Twenty-ninth Report: Durgapur Steel Plant of the Hindustan Steel Ltd.*, New Delhi, Lok Sabha Secretariat, April 1966, p. 32 and India, Ministry of Steel, Mines and Metals, *Report of the Committee of Enquiry on Durgapur Steel Plant (Hindustan Steel Ltd.)*, April 1967, (Chairman: G. Pande), New Delhi, Ministry of Steel, Mines and Metals, 1967, p. 59.

in service' before joining HSL. The State Government employees were attracted to HSL because of better pay scales.

TABLE 2

Factors	Ranking by the Employees coming from				
	Central Govt.	State Govt.	Public Under-takings	Private concerns	Not in service
(a) Foreign training	1	2	1	3	4
(b) National outlook of the organisation	5	4	3	2	3
(c) Pay	3	1	5	5	2
(d) Promotion prospects	2	3	2	4	5
(e) Security of service	4	5	4	1	1
(f) Social life in the organisation	6	6	6	6	6

Because of the public sector's appeal to the talented persons for giving them a sense of participation in nation building activities and the satisfaction of serving a national enterprise, rather than a private one, competent men continue to be attracted by the public undertakings. Further because quite a number of competent persons are attracted by HSL due to the 'security of service', a lower remuneration for them as compared to private sector employees has been suggested. It is pointed out, "those who choose security may not reasonably aspire to the glittering prizes open to the persons who take risks".<sup>13</sup>

### Manpower Planning

It was observed that the non-executives of the three plants think that they are 'under-staffed' [Coefficient of Association (CA) 0.550]. No such association was observed in the attitude of the employees at other levels in any of the three plants.

On the whole, the employees of HSL are of the opinion that the manpower position is 'about right' at the non-executive and junior-executive levels; while it is 'over-staffed', to some extent, at the middle and upper-middle levels.

<sup>13</sup> India, Ministry of Finance, *Commission of Enquiry on Emoluments and Conditions of Service of Central Government Employees (1957-59): Report* (Chairman: Justice Jagannadha Das), New Delhi, Ministry of Finance, 1959, p. 85.

Various studies so far conducted<sup>14</sup> in the plants have revealed that about 15 to 20 per cent of excess staff is being employed in the unskilled and semi-skilled categories in the works departments; while about 5 to 10 per cent of excess staff is being engaged in administrative departments as peons and clerks. Elsewhere, the surplus staff was found to be only marginal. The Manpower Committee, appointed by the Company, to fix the 'standard force' for one million tonnes recommended 22,656 (112%) non-executives in excess of the one recommended in the project reports of the three plants. On the other hand, only 490 (24%) executives in excess were recommended.<sup>15</sup> Further, the actual strength for one million tonnes works out to be 8,965 (20.9%) non-executives and 87 (3.4%) executives in excess of that of the 'standard force' in the three steel plants. Thus, the view of the employees is against the observation of the studies that there is over-staffing at the lower levels. This has led to dissatisfaction among the non-executives, who feel that the axe for reducing the staff normally falls on them, whereas excess staff, in their opinion, is found at the upper levels.

Many (43%) of the employees at all levels have desired that a "reassessment of the staff should be done on scientific basis". Some (34%) of them want that the "surplus staff either be absorbed in the future expansion programmes" or be "sent to the new steel plants". Very few (4%) employees, understandably, have supported the idea of "a ban on further recruitment", rather than 'retrenchment' for adjusting the surplus staff.

### *Recruitment*

The employees of three steel plants of HSL were asked to comment upon the interview conducted at the time of their selection.

From the replies of the respondents it was revealed that:

- (i) Greater emphasis was laid on 'personal history of the candidates' during the interview of the middle-level executives than in the case of others (CA 0.627);
- (ii) No emphasis was laid on 'theory' in interviewing candidates for non-executive positions [CA (—) 0.508]; and
- (iii) Many (46%) of the non-executives and junior-level executives (32%) in the three plants looked at the interview as 'just a

<sup>14</sup> Some of these studies were conducted by Industrial Engineering Departments of the respective plants; while others by the erstwhile Central Engineering and Design Bureau. A study was also conducted with the help of Administrative Staff College of India, Hyderabad. See, India, Hindustan Steel Ltd., *Sixteenth Annual Report* (1969-70), Ranchi, Hindustan Steel Ltd., 1970, p. 27

<sup>15</sup> India, Hindustan Steel Ltd., *Statistics for Iron and Steel Industry*, Ranchi, Hindustan Steel Ltd., 1966, pp. 183-7 and Estimates Committee (Third Lok Sabha), *Fifty-second Report*, *op. cit.*, pp. 22-25.



formality'. On the other hand, 15 per cent of the middle-level executives (and that too only in Bhilai) held such a view of the interviews.

By applying chi-square test, it was revealed that the reported emphasis in the interview is related to the level of the employees, as the observed value of chi-square was found to be 35.312, which is greater than 15.507, the tabulated value of chi-square at 5 per cent level of significance with 8 degrees of freedom.

An analysis of the replies made on the basis of 'sources of staffing' of the respondents revealed the following:

- (i) Many (46%) of the employees working in the Central Government, before joining HSL, are of the view that greater emphasis was on 'personal history';
- (ii) Interview was 'just a formality' for about one-third of the candidates working in the State Governments, before joining HSL; while others have expressed that 'practical aspects' and 'personal history' were also given weightage;
- (iii) For about half of the candidates, working in some public undertakings and private concerns, the interview was 'just a formality', though about half of such respondents did think that 'theory' and 'practical aspects' also mattered; and
- (iv) Most (53%) of the respondents who were 'not in service', before joining HSL, have expressed that in their interview greater emphasis was laid on 'theory'.

Thus, the employees coming from the public undertakings or private concerns are of the opinion that the interview conducted at the time of their selection was 'just a formality'. In case of those coming from the State Governments or from the Central Government, emphasis has also been on 'personal history'. For those who were 'not in service', 'theory' was stressed upon. It is evident that while conducting interviews the background of the candidates is taken into consideration. The candidates, who had experience of some industries/organisation in the private or public sectors or of the Government departments, are put questions relating to their experience. For such candidates, therefore, emphasis is both on 'personal history' and 'practical aspects'. On the other hand, for the candidates, who are fresh from colleges, greater emphasis is laid on 'theoretical aspects'.

The employees were asked to give a comparative view of the recruitment, interview and selection procedure in HSL and other public

undertakings. From the replies it was observed that:

- (i) Many (34%) of the non-executives stated that their first interview was in HSL. But many others (30%) feel that the entire procedure of recruitment, interview and selection is 'much worse' and some (27%) of them think that it is 'slightly worse';
- (ii) Many (45%) of the junior-level executives replied that the procedure is 'slightly worse'. However, some (27%) of such employees consider it as 'much worse'; and
- (iii) Most (64%) of the middle-level executives responded that the entire procedure is 'slightly worse'. But some (31%) of such employees in Bhilai are of opinion that it is 'much worse' and only a few in Rourkela look upon the entire procedure as 'about the same'. None of them considered it as 'much better'.

Thus, on the whole, the employees have expressed their dissatisfaction with the entire procedure of recruitment, interview and selection. From the study of the candidates called for interview, those attending the interview and those joining the Hindustan Steel Ltd., it was observed that nearly two-thirds of the candidates actually called have been attending the interview during all these years. Further, about half of the candidates selected have been joining HSL. On the whole, about one-fifth to one-fourth of the candidates called for interview have been joining HSL. From an analysis of the records, it was observed that there have been many cases where even the appointment letters were issued nearly four or five months after the date of interview. Delay either in calling for the interview or sending the offers of appointment not only keeps the candidates in suspense, prompting many of them to join other organisations during the intervening period, but also creates a bad image of the administrative efficiency of the management among the prospective employees.

Since each Graduate Engineer has to execute a bond at the time of joining HSL to serve the Company for five years, after training, failing which, the money spent on the training is recovered from the employees, such engineers were, therefore, asked if they were satisfied with the conditions of the bond.

Majority (76%) of them have expressed their dissatisfaction with it. Such respondents were further asked to specify reasons for their dissatisfaction. Some of them (11%) did not give any reason; while others have given divergent reasons for their reaction. Some (10%) stated that "there is no provision to leave during the period of the bond on paying a proportionate amount"; an equal number of them thought that the "amount to be deposited on leaving is too high". Some of them (16%) opined that "the terms and conditions of the bond are strict and lead to frustration among the qualified and skilled

executives". Others (24%) consider that "the conditions of the bond are more favourable to the management — it being one-sided and unilateral"; while a good many of them (29%, the highest percentage) feel that "the period of the bond is too long".

Further, they were asked, "If the condition of execution of the bond is waived, would you like to leave Hindustan Steel Ltd.?" Most (74%) of those dissatisfied with the bond responded with an emphatic 'yes'; while very few of them replied in negative. Thus, majority of the Graduate Engineers are not satisfied with the conditions of the bond and would like to leave HSL.

Engineers, who desired leaving the Company, if relieved of the condition of execution of the bond, were further asked to specify the organisation to which they would like to go. About ten per cent of them did not have any organisation in mind; while many of them (37%) expressed their inclination for some well-known private concerns and about 30 per cent for new public undertakings. A few of them (11%) intended going to foreign countries and still fewer (9%) wanted to do their own business in their native place. A very negligible percentage (3) opted for joining Government departments.

Thus, the dissatisfied executives, after leaving the Hindustan Steel Limited want to join either private concerns or new public undertakings.

To know their reaction towards recruitment and selection procedure, the employees were asked as to how they would feel if their friends/relatives apply for a job in the Hindustan Steel Limited.

It was observed that most of the non-executives and junior-level executives are rather 'indifferent'; while almost half of the middle-level executives are 'in favour, on the whole', or 'slightly in favour' of their friends/relatives applying for jobs in HSL.<sup>16</sup> On further analysis it was found that most of the respondents who answered 'strongly against' or 'slightly against' were such as were dissatisfied with the terms of the bond.<sup>17</sup>

### *Training*

The employees were asked to express their views on the utility of their initial training in the Company. From their replies it was revealed that majority (71%) of the employees who received training are satisfied with it. They stated that the training was quite useful in several ways, like 'reducing

<sup>16</sup> Such views of the employees are independent of their being in any of the steel plants as the observed value of chi-square, 9.083 is less than 15.507, the tabulated value at 5 per cent level of significance with 8 degrees of freedom.

<sup>17</sup> The observed value of chi-square, 6.044, was found to be greater than 5.991, the tabulated value, at 5 per cent level of significance with 2 degrees of freedom.

the cost of end-products', 'increasing the production' and 'bringing in better management to the units'. The percentage of such employees is quite high in the case of middle-level executives both in Rourkela (74%) and Durgapur (81%). However, some employees of Bhilai (20%) consider their training as 'wastage of time and money' and that it has been of 'no substantial use'. The reaction is primarily due to the fact that Graduate Engineers from Bhilai, unlike other plants, are not being sent for training to the Management Institute at Ranchi.<sup>18</sup>

About 43 per cent of the junior-level executives (presently working as Assistant Foremen or Foremen or holding equivalent posts), trained during the last five to seven years have expressed their dissatisfaction. The major reason for this discontentment, revealed on further probe into the matter, was that such respondents could not be sent abroad for training. But most of the middle-level executives (serving as Assistant General Foremen, General Foremen or Assistant Superintendents or those holding equivalent posts) trained earlier, nearly ten years or so, are satisfied with the training programmes, because many of them had been trained in foreign countries.

Even though there is an improvement in training programmes, the employees are dissatisfied. Many of them, who were attracted to HSL because of elaborate foreign training programmes, on finding now that chances of training abroad are rather remote, have become disappointed. They are not being sent out because training facilities are now available either in the Company or in other plants in India.

An attempt was therefore, made to study the factors responsible for dissatisfaction with the training programmes. The same is represented in Table 3.

Table 3 clearly demonstrates that the attitude of the employees towards the initial training they received in/through the Hindustan Steel Limited is independent of level,<sup>19</sup> plant, nature of duties<sup>20</sup> and place of initial and post-employment training. But the attitude is dependent on the 'choice for placement' and 'actual placement' and 'period of training'.

Further analysis was made to know the direction and degree of association between the factors found to be dependent. It was observed that those

<sup>18</sup> India, Committee on Public Undertakings (Third Lok Sabha), *Twenty-eighth Report: Head Office of the Hindustan Steel Limited (Ministry of Iron and Steel)*, New Delhi, Lok Sabha Secretariat, April 1966, p. 16.

<sup>19</sup> Though it was found to be independent at 5 per cent level of significance, it was observed to be dependent at 9 per cent level of significance.

<sup>20</sup> Though attitude of the employees towards training was observed to be independent of nature of duties of the employees at 5 per cent level of significance, it was found to be dependent at 22 per cent level of significance.

TABLE 3

ATTITUDE OF THE EMPLOYEES TOWARDS TRAINING AND ITS RELATION  
TO OTHER FACTORS

<i>Factors</i>	<i>Observed value of Chi-square</i>	<i>Degrees of Freedom</i>	<i>Tabulated value of Chi-square at 5% level of signifi- cance</i>	<i>Remarks</i>
Level of the employees	8.215	4	9.488	Independent
Plants	5.713	4	9.488	Independent
Nature of duties of the employees (Technical and Non-Technical)	4.332	2	5.991	Independent
Place of initial training	4.854	4	9.488	Independent
Post-employment training	0.508	2	5.991	Independent
Choice for placement	14.705	2	5.991	Dependent
Actual Placement (Right/ Wrong)	20.843	2	5.991	Dependent
Period of training	34.769	4	9.488	Dependent

who expressed that their 'choice was taken for granted' for their placement regard their initial training received in/through the Hindustan Steel Ltd. of 'no use' (CA 0.660). But those who admit that their choice was taken into consideration for their placement consider the training 'of great use' (CA 0.577) and their present duties as 'more or less suited to their capabilities' (CA 0.505). Those whose choice was not taken into consideration for placement hold the view that their present duties are much/beyond their capabilities (CA 0.505). This is one of the factors responsible for lowering their performance. Further, those placed on the job for which they were trained, regard their initial training 'of great use' (CA 0.620). The demand for increase or reduction in the period of initial training is directly related to the views of the employees regarding its utility (CA 0.656) or futility (CA 0.741).

The foregoing analysis endeavours to demonstrate that whatever dissatisfaction the employees have in respect of the initial training they received in/through the Hindustan Steel Ltd., has been either due to the fact that their choice was not taken into consideration for placement after training or that they were not placed on the job for which they were trained. Since

'production incentive bonus', 'promotional opportunities' and 'professional satisfaction' are related to the department/unit in which the employees are placed, wrong placement is bound to lead to dissatisfaction.

### *Promotion*

The employees were asked about their views on various aspects of promotion policy and its administration in the Hindustan Steel Ltd.

#### *Frequency of Promotion*

The employees were asked about the 'frequency of promotion'. From the replies it is observed that more than two-thirds of the employees in Rourkela regard the frequency of promotion as 'normal'. But majority of the non-executives and junior-level executives, both in Bhilai (65 % and 58 % respectively) and Durgapur (60 % and 43 % respectively) regard the same as 'slow'. However, all the middle-level executives in Bhilai and about half in Durgapur think that it is 'normal'. Very few of the employees consider the frequency of promotion as 'quick'.

It has been observed that response to the frequency of promotion is independent of the 'nature of duties' and 'background of the employees'.<sup>21</sup> It is, however, dependent on 'levels' and 'plants' of employees.<sup>22</sup> A close association was found in the case of middle-level executives viewing the frequency of promotion as 'normal' (CA 0.741). An association has also been observed in the case of employees of Rourkela reporting it as 'normal' (CA 0.540) and the employees of Bhilai reporting the same as 'slow' (CA 0.538).

It can, thus, be safely concluded that executives at middle-level regard the 'frequency of promotion' as 'normal'. Similarly, it can be inferred that the employees of the Rourkela Steel Plant consider the frequency as 'normal' and those of Bhilai as 'slow'. Various studies<sup>23</sup> have revealed that there are many cases of accelerated promotion in the Bhilai and Durgapur Steel Plants. This has been especially so with the middle-level executives. This indicates that even with a 'quick' rate of promotion, most of the employees have a tendency to regard the same as 'normal' and even 'slow'.

#### *Disparity in the Rate of Promotion*

The employees were asked if there was any disparity in the rate of promotion between different departments of the same plant or different plants

<sup>21</sup> The calculated value of chi-square, 27.751, is greater than the tabulated value of 9.488 at 5 per cent level of significance with 4 degrees of freedom.

<sup>22</sup> The calculated value of chi-square, 64.877 is greater than the tabulated value, 9.488, at 5 per cent level of significance with 4 degrees of freedom.

<sup>23</sup> See footnote 12 *supra*.

of HSL or different undertakings in the public sector. It was observed that:

- (i) Over two-thirds of the employees in all the three plants have stated that there is disparity in the rate of promotion among the departments of their respective plants;
- (ii) A large majority (82 %) of the employees of the three plants has also reported inter-plant disparity; and
- (iii) Many (29 %) employees 'do not know' of any disparity in the rate of promotion among the public undertakings. But nearly two-thirds of the respondents think that some disparity does exist.

The reporting of such disparities, by the employees, has been found to be independent of their 'nature of duties', 'background' and 'plants'. But it has been found to be related to the 'level' of the employees in respect of 'disparity between the departments'.<sup>24</sup> It was further observed that the middle-level executives feel that, between departments, there is disparity in the rate of promotion (CA 0.550).

#### *Basis of Promotion*

The employees were asked to express their opinion on the basis of promotion by pointing out the two most important factors (by ranking 1st and 2nd places) and the two least important factors (by ranking 7th and 8th places) out of the eight factors placed before them.

The analysis has revealed that there is not much variation in the percentage of employees, within the same levels of different plants, attaching importance to a particular factor for determining promotion.

Table 4 indicates the ranking, of all factors, by different levels of employees.

Thus, there is practically no difference in the opinion of the non-executives and the executives at Junior level, who regard 'favouritism' and 'good relations with supervisors' as the main bases of promotion. Executives at middle-level, however, feel that 'technical/administrative competence' and 'academic qualifications' form the main bases of promotion.

Applying chi-square test, the 'basis of promotion' was found to be independent of the 'plants', 'background' and 'nature of duties' of the

<sup>24</sup> The calculated value of chi-square, 10.929, was found to be greater than its tabulated value, 5.991, at 5 per cent level of significance with 2 degrees of freedom.



TABLE 4

<i>Non-Executive</i>	<i>Executive (Junior)</i>	<i>Executive (Middle)</i>
1. Favouritism	Good relations with supervisors	Technical/Administrative competence
2. Good relations with supervisors	Favouritism	Academic qualifications
3. Hard work	Technical / Administrative competence	Experience in a particular field
4. Technical / Administrative competence	Seniority	Seniority
5. Experience in a particular field	Experience in a particular field	Good relations with supervisors
6. Academic qualifications	Hard work	Maintenance of good labour relations
7. Seniority	Academic qualifications	Hard work
8. Maintenance of good labour relations	Maintenance of good labour relations	Favouritism

employees. It was, however, found to be dependent on the level of employees.<sup>25</sup> On further analysis the following coefficients of association were observed.

TABLE 5

<i>Level</i>	<i>Factor</i>	<i>Coefficient of Association</i>
Non-Executive	Good relations with supervisors	0.510
Executive (Junior)	Seniority	0.515
Executive (Middle)	Maintenance of good labour relations	0.892

On the basis of the coefficient of association, it is revealed that 'good relations with supervisors' is being regarded as the main basis of promotion by the non-executives. This is one of the causes of dissatisfaction among the non-executives. The junior-level executives think that 'seniority' is the chief basis of promotion. The middle-level executives consider that 'maintenance of good labour relations' forms the principal basis of promotion.

<sup>25</sup> The calculated value of chi-square, 64.411, was found to be greater than the tabulated value, 23.635, at 5 per cent level of significance with 14 degrees of freedom.

*Promotion Procedure*

The employees were asked to comment on the promotion procedure being followed in their department/plant. It was observed that:

- (i) Most (69%) of the non-executives in the three plants regard the promotion procedure as either 'little unfair' or 'very unfair';
- (ii) Similarly, most (56%) of the junior-level executives also consider the promotion procedure as either 'little unfair' or 'very unfair';
- (iii) Most (59%) of the middle-level executives think that promotion procedure is 'fair, on the whole'; while to some (30%) of them it is 'little unfair'; and
- (iv) Very few (6%) employees are of the view that the promotion procedure is 'as fair as possible'.

The analysis also revealed that the executives who joined during the early phases of operation/commissioning of the plants (presently working at the middle-level positions) had a speedier chance of promotion than those joining during the last four or five years. There have been quicker promotions in Durgapur and Bhilai as compared to Rourkela; it being the quickest in Durgapur.

Three factors have been responsible for such a rapid rate of promotion in the Hindustan Steel Ltd. Firstly, during the last decade and a half, the company has been expanding its activities and production enormously. Secondly, it was not possible for HSL to obtain from the already existing public undertakings or from the private sector, enough persons with requisite experience.<sup>26</sup> Thirdly, there has been a conscious effort to replace the foreign personnel.<sup>27</sup>

On further analysis it was evident that most of the employees of maintenance, construction and administrative departments regard the promotion procedure as 'little unfair' or 'very unfair'; while those belonging to production and service departments are comparatively more satisfied with the procedure.

An analysis on the basis of 'sources of staffing' has revealed that the majority of the employees who were previously 'not in service' and those who

<sup>26</sup> In areas, like steel, where the personnel in the private sector in sufficient number was available, only 16 per cent, of the total requirement of middle-level executives of HSL could be provided by the Tata Iron and Steel Co. and the Indian Iron and Steel Company.

<sup>27</sup> The Rourkela Steel Plant has reduced the number of foreign technicians from 256 in 1963 to 37 in 1970, Bhilai from 200 in 1959 to 64 in 1970 and Durgapur from 90 in 1961 to 2 in 1969.

were in 'private concerns' look at the promotion procedure as either 'little unfair' or 'very unfair'. But majority of the employees, previously in the Central Government, State Governments or public undertakings consider the procedure as 'fair, on the whole'. This may be due to the fact that the employees of the latter category might have had the same procedure of promotion in their parent organisations as is prevalent in the Hindustan Steel Ltd.

Applying chi-square test, promotion procedure was found to be dependent/independent of the factors as mentioned in Table 6.

TABLE 6

CHI-SQUARE TEST SHOWING PROMOTION PROCEDURE, DEPENDENT/  
INDEPENDENT OF VARIOUS FACTORS

<i>Factors</i>	<i>Calculated value of chi-square</i>	<i>Degrees of freedom</i>	<i>Tabulated value of chi-square at 5% level of signi- ficance</i>	<i>Remarks</i>
Basis of promotion	152.384	14	23.685	Dependent
Promotion according to Rules	120.835	2	5.991	Dependent
Disparity in the rate of promotion between departments	55.811	2	5.991	Dependent
Disparity in the rate of promotion between plants	33.141	2	5.991	Dependent
Disparity in the rate of promotion between public undertakings	21.176	2	5.991	Dependent
Frequency of promotion	38.969	4	9.488	Dependent
Training as related to promotion	35.079	2	5.991	Dependent
Level of employees	14.158	4	9.488	Dependent
Background of the employees	9.110	8	15.507	Independent
Plant of the employees	0.891	4	9.488	Independent
Nature of duties	9.773	8	15.507	Independent

The factors found to be dependent were further analysed to find out the coefficient of association. The analysis reveals that:

- (i) The employees who regard the promotion procedure as 'very unfair' and 'little unfair' have pointed out that the 'favouritism' (CA 0.950) and 'good relations with supervisors' (CA 950) are the bases of promotion; those who consider it as 'fair, on the whole' feel that 'academic qualifications' is the basis (CA 0.926) and those who think that the same is 'as fair as possible' are of the view that 'hard work' (CA 0.790) and 'technical/administrative competence' (CA 0.731) are the bases of promotion;
- (ii) Those employees who are of the opinion that the promotion is being given according to Rules, regard the procedure 'as fair as possible' (CA 0.882) and 'fair, on the whole' (CA 0.888); but those who feel that the same is not being done according to Rules, consider the procedure as 'very unfair' and 'little unfair' (CA 0.924);
- (iii) Those employees who responded that there is no disparity between departments in the rate of promotion, are of the view that the promotion procedure is 'fair, on the whole' (CA 0.699); but those who regard that there is disparity feel that the procedure is 'very unfair' and 'little unfair' (CA 0.855);
- (iv) Those employees who feel that there is no disparity between plants in the rate of promotion consider that the procedure is 'as fair as possible' (CA 0.796); but those who feel that such disparity does exist regard the procedure as 'very unfair' and 'little unfair' (CA 0.779);
- (v) Similarly, respondents for whom there is no such disparity between public undertakings feel that the procedure is 'as fair as possible' (CA 0.767); but those who regard that there is disparity say that the procedure is 'very unfair' and 'little unfair' (CA 0.737);
- (vi) Such employees as are of the opinion that the frequency of promotion is 'slow' also regard that the procedure is 'very unfair' and 'little unfair' (CA 0.595); those who consider the same as 'normal' think that the procedure is 'fair, on the whole' (CA 0.538) and those who regard it as 'quick' feel that the procedure is 'as fair as possible' (CA 0.840);
- (vii) The employees whose training was not related to promotion regard the procedure as 'very unfair' and 'little unfair' (CA 0.731); but those who feel the other way think that the procedure is 'as fair as possible' (CA 0.840); and

- (viii) Middle-level executives hold the view that the promotion procedure is 'as fair as possible' (CA 0.514.)

The discontentment created by the promotion procedure among the non-executives and junior-level executives has been due to a feeling that the promotions are not being made according to Rules and that there is disparity in the rate of promotion between departments/plants/public undertakings. Besides, they are of the view that the promotion rate is slow and their training is not related to promotion opportunities.

### *Remuneration*

The employees were asked about disparity between the Hindustan Steel Ltd. and other public undertakings in the matter of 'pay', 'dearness allowance' and 'production incentive bonus' for similar positions. From the views of the respondents it was observed that:

- (i) About two-thirds of the employees feel that, as compared to other public undertakings, they are being given 'about the same' pay, dearness allowance and production incentive bonus;
- (ii) Some (22%) of the employees, mostly non-executives and junior-level executives, think that they are getting less dearness allowance compared with that being paid by other public undertakings; and
- (iii) Some (23%) of the employees, more so in Bhilai and Durgapur have responded that they do not know about the production incentive bonus being paid in other public undertakings; while others (17%) consider that, as compared to other public undertakings, they are receiving less bonus.

The employees were also asked about the disparity between the Hindustan Steel Ltd. and private concerns in respect of 'pay', 'dearness allowance' and 'production incentive bonus' for similar positions. From the opinion of the respondents it was revealed that:

- (i) About two-thirds of the employees have expressed that, as compared to private concerns, they are being 'under paid' in respect of 'pay', 'dearness allowance' and 'production incentive bonus'; and
- (ii) However, some (26%) of the employees think that their emoluments in terms of 'dearness allowance' and 'production incentive bonus' are 'about the same'.

Thus, it can be safely concluded that majority of the employees of the Hindustan Steel Ltd, at various positions, feel that they are receiving

'about the same' remuneration as compared to similar positions in other public undertakings, but are being 'underpaid' when compared to similar positions in private concerns.

Comparing the pay scales of middle and junior-level executives, it was revealed that the Hindustan Steel Ltd. lags behind only some of the well-known, especially foreign private concerns,<sup>28</sup> but is paying nearly the same remuneration and in some cases, even higher, as compared to private concerns.<sup>29</sup>

Another study was conducted to know the comparative position in respect of pay scales, dearness allowance, house rent allowance, city compensatory allowance, conveyance allowance and other allowances in some of the public undertakings. Based on the data, total salary (including all comparable allowances) was calculated at various points of pay scales. The results of the study indicate that:

- (i) Within public undertakings there is a considerable uniformity of pay scales (with minor variations in annual increments) and dearness allowance;
- (ii) There is wide disparity in the house rent allowance and conveyance allowance;
- (iii) The total emoluments in HSL, up to the basic salary of Rs. 600 per month, are much less than in Indian Oil; but thereafter, the position is reversed; and
- (iv) As regards total emoluments, Air India is leading HSL after the basic salary of Rs. 800 per month.

Thus, the pay of the middle and junior-level executives in the Hindustan Steel Ltd. compares favourably with similar positions in most of the other public undertakings. However, some of the older and 'departmental type' of undertakings are keeping lower pay scales and giving less allowances.

On further analysis of the replies, the following significant associations were observed:

- (i) The middle-level executives feel that they are being paid 'about the same' dearness allowance (CA 0.711) and 'production incentive bonus' (CA 0.593) when compared to similar positions in other public undertakings;

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<sup>28</sup> Concerns like Burmah-Shell, Imperial Chemical Industry, Hindustan Lever and Stanvac.

<sup>29</sup> The study, in detail, was made on the basis of advertisements appearing in the newspapers.

- (ii) The employees who were working in other public undertakings before joining HSL consider that they are receiving higher pay as compared to similar positions in other public undertakings (CA 0.523); and
- (iii) The employees who were engaged in private concerns before joining HSL are of the view that they are drawing 'about the same pay' (CA 0.700) and dearness allowance (CA 0.521) as compared to similar positions in private concerns.

Thus, the employees coming to the Hindustan Steel Ltd. from other public undertakings consider—a view which must be given weightage—that they are being 'overpaid' as compared to other public undertakings. This was the reason of their joining the Hindustan Steel Ltd. The employees who were in private concerns feel that they are getting 'about the same' pay and dearness allowance.

#### *Inducement to Production Incentive Scheme*

The employees, to whom the scheme applies, were asked as to what extent they are induced by the production incentive scheme. The analysis of the replies revealed the factors dependent/independent of the inducement by the scheme. The same is indicated in Table 7.

TABLE 7

CHI-SQUARE TEST SHOWING INDUCEMENT BY THE PRODUCTION INCENTIVE SCHEME AS DEPENDENT/INDEPENDENT OF OTHER FACTORS

<i>Factors</i>	<i>Calculated value of chi-square</i>	<i>Degrees of freedom</i>	<i>Tabulated value of chi-square at 5% level of signi- ficance</i>	<i>Remarks</i>
Production incentive bonus as compared to public undertakings	50.134	4	9.488	Dependent
Production incentive bonus as compared to private concerns	0.174	4	9.488	Independent
Factors for inducement	43.451	4	9.488	Dependent
Plants	13.980	4	9.488	Dependent
Level of the employees	9.668	2	5.991	Dependent
Nature of duties	8.633	4	9.488	Independent



The factors found to be dependent were further analysed to know the direction and degree of association. The analysis reveals that:

- (i) Those employees who feel that they are receiving lesser production incentive bonus as compared to similar positions in other public undertakings, have pointed out that they are 'not at all' induced by the production incentive scheme (CA 0.922). But such employees who think that they are being 'overpaid' are of the view that they are 'very much' induced (CA 0.757);
- (ii) The employees who are induced very much by the scheme regard 'good chances of promotion' as the main basis of their inducement (CA 0.760);
- (iii) The employees of the Bhilai Steel Plant are induced 'to some extent' by the scheme (CA 0.692); and
- (iv) The non-executives are 'not at all' induced (CA 0.573); whereas junior-level executives are induced 'to some extent' by the scheme (CA 0.536).

Thus, the dissatisfaction with the scheme is due to the lower rate of production incentive bonus. Apart from financial benefits, promotion opportunities also act as a great incentive in increasing production. Employees of Bhilai, because of higher production, are satisfied with the scheme.

Though all the three steel plants follow the same scheme, dissatisfaction among the non-executives and junior-level executives was observed only in Durgapur. This is because Durgapur has been suffering from unprecedented and persistent labour troubles, particularly before and during the General Elections, 1967. Office bearers of two main rival unions were candidates for election to the State Legislature.<sup>30</sup> This has adversely affected the production and consequently the remuneration to be paid under the production incentive scheme. It has been estimated that during 1960-1970, the plant, on an average, had 'labour productivity' of 53.5 tonnes of steel ingots per employee, of the works departments, per year. The extent of plant utilisation during the same period had, on average, been only 64 per cent.

The reason for the dissatisfaction in the maintenance departments, and more so in the service departments, is the lower rates of 'production incentive bonus' in these departments. Further, since the production incentive bonus is related to the production departments, it does not provide direct incentive to the employees working in the maintenance and service departments.

<sup>30</sup> See India, Hindustan Steel Ltd., *Thirteenth Annual Report* (1966-67), Ranchi, Hindustan Steel Limited, 1967, p. 22.

The employees were also asked to express their views about initiative on the job, professional satisfaction, guidance from supervisors, competence of the supervisors, discipline in the units, socio-physical working environments, public image of the Hindustan Steel Ltd. as compared to other public undertakings and criticism, among the employees, of the personnel policies and practices of the Company.

On analysis the following significant associations were observed:

- (i) The non-executives feel that their jobs provide 'very little scope' for initiative (CA 0.518);
- (ii) The middle-level executives think that their supervisors are 'competent' (CA 0.560);
- (iii) The employees who were working in private concerns earlier have pointed out that 'social and welfare amenities' have been 'well' provided to them (CA 0.503);
- (iv) The respondents, who were working in public undertakings before joining HSL are of the view that the employees are 'disciplined' (CA 0.533);
- (v) The middle-level executives feel that public image of HSL as compared to other public undertakings is 'much better' (CA 0.714); while the non-executives think that the same is 'slightly worse' (CA 0.513); and
- (vi) The non-executives have pointed out that the criticism, among the employees, of the personnel policies and practices of the Company is 'rare' (CA 0.605); while the middle-level executives think that such criticism is 'frequent' (CA 0.503).

#### SUMMING UP

Despite stiff competition with the private sector steel plants, the Hindustan Steel Ltd. has been able to attract sufficient number of available qualified persons due to its progressive personnel policies, adequate pay, ample opportunities for promotion and elaborate training, especially foreign training programmes. But owing to defective and wrong implementation of the personnel policies, many of the employees are not only dissatisfied but are anxious to leave the Hindustan Steel Limited. As such, it has not been able to fulfil one of its important personnel objectives, namely, "developing and sustaining a favourable employee attitude and obtaining maximum contribution of employees through . . . job satisfaction".<sup>31</sup>

<sup>31</sup> The Board of Directors of the Hindustan Steel Ltd. in its meeting held on 26 February 1970 at Ranchi adopted objectives, towards employees along with those of the Company. For objectives see India, Hindustan Steel Ltd., *Sixteenth Annual Report* (1969-70) Ranchi, Hindustan Steel Ltd., 1970.

This is because, there has been a sudden and tremendous increase in the activities, volume of investment and employment in the Hindustan Steel Ltd. But proportionately less attention has been paid towards personnel administration to cope with the increased work.

Keeping excess staff has not only resulted in low 'labour productivity', high 'labour cost' and consequently losses but it has created dissatisfaction among the employees.


Owing to unplanned 'staffing policy', there has been a sharp increase in the number of Graduate Engineers selected in 1965 and 1966. This affected the training loads of the plants and created administrative problems relating to promotions. Handling large number of candidates, for interview and appointment, had adversely told upon the administration of the recruitment section. As a result of it, not many candidates appeared for interview or joined the Hindustan Steel Ltd. Many of the serving junior executives are, therefore, dissatisfied with the interview and selection procedure.

The middle-level executives, who joined during the earlier phases of the Company, had foreign training, proper placement and quicker promotions, have expressed their satisfaction with the personnel policies and practices. But junior executives not having such privileges have shown their dissatisfaction. Such executives who are finding a comparatively lower rate of promotion are strongly critical of the promotion policy and procedure of the Company. They have pointed out that promotions, by and large, are based on 'good relations with supervisors' and 'favouritism'.

Since the rates of promotion are lower in maintenance, construction and administrative departments, their employees are comparatively more dissatisfied than those in other departments. The employees, who were in private concerns or were 'not in service' before joining the Hindustan Steel Ltd. are dissatisfied with this aspect of personnel administration as the rate of promotion has fallen short of their expectations. On the other hand, persons coming from Government service or public undertakings are satisfied because of better promotion prospects in the Company.

It has been observed that the employees of Durgapur Steel Plant and of maintenance and service departments in all the three steel plants are more dissatisfied with the production incentive scheme than other employees. In the case of the former, it is due to labour disturbances, adversely affecting production and resulting in a paltry bonus. In the case of the latter, it is because of lower rates of bonus than in other departments.

Thus, foreign training and promotion prospects have been found to be important variables in the satisfaction of the employees of the Hindustan Steel Ltd. Lack of initiative on the job, indiscipline in the plants, public image of the Company being worse than that of other public undertakings and socio-physical working environments not being 'adequate' have contributed to dissatisfaction among the employees.



## CONFLICT OR COOPERATION : ADMINISTRATORS AND POLITICIANS IN A CRISIS SITUATION

*Kuldeep Mathur*

VIEWS about the lack of task or goal orientation within the Indian administrative system have varied with politicians and administrators. The political leadership has based itself upon a general approach to explain this kind of lack of orientation. Since the end of the colonial period it has been popularly argued that the administrators carry an imperial legacy and cannot work in the changed political environment. A sharp distinction between law and order and 'development administration' has been drawn and it is constantly reiterated that the source of present kind of bureaucratic disposition is due to the longing of the administrator of today for the administration of yesterday when he reigned supreme. The emphasis is on maladjustment, lack of dedication and authoritarian tendencies. The incompatibility of the 'ICS ethos' with the needs of the present-day government is stressed.<sup>1</sup>

A variation of the same approach has been to emphasise the elite background of the administrators. The argument is that they continue to be recruited from a narrow base of privilege within the society and are, therefore, unable to identify themselves with the political and economic aspirations of the people at large. Much is made of, for example, of the rural-urban dichotomy and hesitation to go and serve in the villages is taken as evidence of urban breeding, not compatible with administrative requirements. Essentially the argument is that the administrators come from a background that is not conducive to an attitude and temperament necessary for development activities.<sup>2</sup>

For the political leadership, a consequence of these approaches is the demand for 'commitment' in the civil service. Commitment has been looked at in various ways,<sup>3</sup> but the essential demand is that the administrators must believe in what they are doing. It is argued that neutrality is merely a cloak to hide their inertia and development programmes need full and open support.

<sup>1</sup> J. LaPalambara, *An Overview in Bureaucracy and Political Development*, 1963, Princeton U. Press, Princeton.

<sup>2</sup> R. J. Braibanti and J. J. Spengler, *Tradition, Values and Socio-Economic Development*, 1961, Duke U. Press, Durham.

<sup>3</sup> Kuldeep Mathur, "Committed Bureaucracy for India: Notes Towards Evolving a Model", *Political Science Review*, Vol. X, 1971, p. 1 & 2.

The administrator looks at the problem from an altogether different angle. He blames the political leadership for introducing irrational criteria in the implementation of schemes for rational development and for giving "a twist to administrative matters so as to prevent decisions purely on merits".<sup>4</sup> For him, what he calls 'political interference' is a constant irritant seeking to demoralize the whole bureaucracy. The role of the politician and his capacity to articulate the socio-economic aspirations of the people at large is challenged and much is made of the rationality and impartiality of the administrator himself.<sup>5</sup>

These two divergent opinions of the administrators and the politicians emphasise the strong stresses and strains in their relationships and apparently predict mutual hostility in any programme of activity which compels them to work together. But within the Indian situation, this is not always true. In spite of the predispositions of the politicians and administrators certain programmes have succeeded and the immediate tasks on hand implemented well. In such successful cases, it is necessary to find out how this task implementation took place. Was it despite this hostile relationship? Did a new cooperative relationship emerge? If it did, what were the conditions that led to its emergence?

These are some of the questions that we seek to answer in this paper. Probably, successful cases can help delineate processes and practices that can be adopted widely and can narrow down mutual differences of two important groups involved in programmes of plan implementation. No doubt 'successful implementation' will be disputed because it is largely a judgemental concept. Therefore, 'successful implementation' in this study will be strictly confined to the policy frame already laid down.

Data have been collected as part of our study on the administration in Maharashtra during emergency resulting from drought in large parts of the State from 1970-71 to early 1973.<sup>6</sup> The scarcity works provided employment to above 50 lakhs of people during the peak period of scarcity. The state government with the assistance of the central government spent about Rs. 41.95 crores in the year 1971-72, Rs. 75.72 crores in 1972-73 and Rs. 130.68 crores during the last financial year (from April 1, 1973 to October 15, 1973) on relief alone.

The Government of Maharashtra from the very early period of scarcity came out with an important resolution. It decided that the major purpose

<sup>4</sup> A.D. Gorwala, *Of Matters Administrative*, 1958, Popular Prakashan, Bombay.

<sup>5</sup> Kuldeep Mathur, *Bureaucratic Response to Development*, 1972, National Publishing House, Delhi; Kuldeep Mathur, *Sources of Indian Bureaucratic Behaviour*, 1972, Occasional Papers, HCM State Institute of Public Administration, Jaipur.

<sup>6</sup> Kuldeep Mathur and M. Bhattacharya, *Administrative Response to an Emergency: A Study of Scarcity Administration in Maharashtra*, IIPA, New Delhi (forthcoming).

of scarcity works would be to provide employment to all those who were able-bodied and demanded employment. Gratuitous relief would be restricted to the pregnant women, the old and infirm. Children were restricted from work and were encouraged to continue their formal schooling; though, during peak periods of scarcity they were found to be helping their families to earn more. A second part of this resolution was to provide jobs within an area of five kilometres from their villages. Finally, the priority of works was to be decided on the basis of their productivity. Traditional relief works like metal breaking or road works were to be kept to the minimum.

The administrative system of Maharashtra has to be looked at broadly within this policy frame as far as achievement of objectives is concerned. It has been widely held that it proved equal to the task and, by and large, it fulfilled the aims of the government. The critics have accepted the successful role of the administration even when they dispute the goals and strategies adopted by the government.

The major structural changes required in administration were to provide coordination and cut red-tape in order to take quick decisions and to get quick feedback. At each level, then, coordination committees were established. At both the District as well as Taluka levels, the coordination and advisory committees incorporated political leadership of that area. All members of Parliament, all members of Legislative Assembly, all members of Legislative Council of that district were associated with the District and Taluka Relief Committees. (*Vide* Government Circular R. & F.D., No. SCY-1366-J 11/2/66). The President of the Zilla Parishad and all chairmen of the subject committees of Zilla Parishad were also made members of the District Committee. At the Taluka level, the Sabhapati of the Panchayat Samiti was included. By another order (GC. R & FD No. NI. 7-1-1971), all political parties operating in the area were also to be represented in these committees. The purpose of this wide representation was 'to ensure their cooperation with Government machinery in implementing the various scarcity relief measures undertaken by the Government as well as organizing such relief from the public'.

Thus, the role of the politician was envisaged to help the government and elicit cooperation from the people for the government sponsored programmes. In course of our interviews, we found that the administrators, by and large, believed that the non-officials generally cooperated well with them in implementing scarcity programmes. Politicians were credited with the help they gave in persuading people to give up land for various scarcity works. The administrators also, by and large, thought that their services had been recognized by the political leadership. A few engineers, however, mentioned that greater recognition went to the generalists rather than to the technical staff who actually implemented the works programmes.



More specifically, the Panchayati Raj system was perceived as a very useful instrument in helping them achieve their targets. An administrator pointed out:

"The scarcity conditions were so acute that nearly everybody was involved. To have mass contact or to have contact at the lowest level was important. For this the Panchayati Raj system is essential. During scarcity, the need for Panchayati Raj was assured and it proved itself useful beyond doubt."

In looking at the turbulence that scarcity caused within the society, another administrator said:

"The volume of scarcity was so high and so widespread that successful implementation of the schemes would not have been possible in the absence of the involvement of Panchayati Raj. The scarcity tensions among people were sometimes so high that official agencies who are not accustomed to these types of tensions would have failed in the absence of leadership working in Panchayati Raj."

Political involvement was also seen from the psychological point of view. An administrator emphasized:

"In case non-officials are not involved, they naturally feel left out particularly where massive operations are carried out. Then, they are psychologically obstructive in implementing programmes."

Thus, the Panchayati Raj was seen by the administrators as a useful way: (a) to reach the lowest level down to the villages; (b) to manage conflicts and tensions arising due to scarcity; and (c) to reduce the nuisance value of politicians. In general, they were appreciative of the essential political roles of persuasion, representation and support.

Such perceptions are quite in contrast to those expressed by administrators of another State during 'normal times'. In a study in Rajasthan<sup>7</sup>, the administrators expressed dissatisfaction with the Panchayati Raj system because it interfered with effective implementation of development policies. What they demanded was centralization of powers and abolition of decentralization of democratic institutions. One of them suggested:

"Panchayat Samiti and Zilla Parishad should be abolished. Government agencies should perform the development work right from the district to the village level . . ."

<sup>7</sup> Kuldeep Mathur, *Sources of Indian Bureaucratic Behaviour*, op. cit.

Senior civil servants of the country have also argued elsewhere that:

"If the implementation has not been as fruitful or successful as has been hoped, any impartial examination would show that the responsibility is not on the civil service but on the so-called local politicians . . ."<sup>8</sup>

The Maharashtra administrators, however, were not sure whether this phenomenon of cooperation would last through normal times. One of the District officials thought that Panchayat Raj system may not work in such a homogeneous way once the emergency is over. Another reasoned that:

"There are too many vested interests which may not allow harmonious relationships during normal times."

The basic argument of the administrators seemed to be that cooperative behaviour has been promoted by a single factor—emergency—and 'once this is removed, routine machinery will take over'. It was emergency that promoted newer methods of work that helped in sustaining an altogether different psychological frame. We shall examine some of these methods below.

There was consistent effort on the part of the administration to associate non-officials in their endeavours. Towards the beginning of 1973, several irregularities and malpractices were observed in the execution of scarcity relief works. A decision was taken to form vigilance committees at the sub-divisional level to detect the malpractices (GR, R & F.D. No. SCY-1373/8867-J-3 dated 27-3-1973). The members of the committee included a non-official apart from the Sub-Divisional Officer and the Deputy Superintendent of Police.

Apart from this, the Secretariat issued specific instructions to the Collectors saying that the programme of relief works which the Collectors of the districts affected by scarcity have been directed to formulate, should be drawn up in consultation with the members of the District Scarcity Relief Committee (GR, R & F.D. No. SWD—1371/J 4.9.1973). This meant that Collectors were specifically asked not to overlook the role of the committee which consisted of a large number of non-officials. This type of insistence was followed up by the Collectors themselves in dealing with programmes drawn up at the Taluka level. In one instance in a district the Tahsildar wrote to the Collector for according sanction to 99 community wells. He wrote that the proposals were submitted in consultation with the BDO. "The formal inquiry for the proposed sites has been made through the 'Talatis' and the 'Gram Panchayat' and the collection of information for actual starting of the wells is taken up in hand." The Collector through a circular insisted that the proposals should be approved by the Taluka Relief Committee (TRC) before the starting of actual work. Accordingly the Tahsildar sent up the proposals only after they had been formally approved by the TRC.

<sup>8</sup> H. M. Patel, "The Scapegoats", *Seminar*, Aug., 1973.

Clearly, the committees formed at the District and the Taluka level were seen as useful mechanisms to gain public support. They were not brushed aside and were actually used for programme formulation. They were consciously used as a mechanism for solving local disputes and coordinating work in the area.

Individual proposals for starting scarcity works were also received by the officials concerned. An MLA, for example, brought a proposal for starting a community well at a particular site. The Collector immediately instructed processing of the proposal and asked the Tahsildar to report to him within a week's time. Similarly, around May 19, 1973, orders to begin closing down metal breaking centres were issued. The President of a Zilla Parishad requested on May 23, 1973 not to close down certain centres unless alternative employment was assured. Within two days, on May 25, 1973, the Collector noted that the Executive Engineer, Buildings and Communication should not close down these centres unless alternate work was provided to these labourers and a report from the Tahsildar called for alternative work. Such behaviour is repeated in case of similar requests from Sarpanch and people's representation through him.

Easy accessibility to the administrative decision-making was encouraged by the frequent visits of the Chief Minister to the scarcity affected districts. The Chief Minister travelled to each district accompanied by several secretary level officials and local MLAs and MPs. Usually, the day was spent in visiting the scarcity works and meeting and listening to people. On return to the district headquarters after the trip was over, new decisions were taken or existing ones altered. Presumably, discussions were open and based on a situation that both the officials and non-officials had assessed together. Most importantly, visits of this type provided tremendous support and encouragement to the local administration. This approval tended to filter down and the local political leadership as well as the administration were conscious of the gestures of the Chief Minister encouraging administrative leadership.

This open communication led to two important consequences. One of them was that the decisions were quick and were made on the spot. One of the Collectors mentioned to us that sometimes he did not wait for the written order to come. He accepted what he was told verbally and received a *post facto* sanction. The relationship was marked by mutual confidence.

Secondly, this system of working with the Chief Minister also gave a sense of participation to the Collectors in managing the crisis. The decisions did not seem to be unilaterally taken and, therefore, the responsibility of their implementation devolved on both the parties.

The state political leadership tended to give clear directions and goals for the administrators. Targets were fixed and responsibility assigned. It

is worth while to quote from a letter (18/12/1973) of a Collector to his Tahsildars:

"The Chief Minister desires that this programme (of community wells) should be taken up on a massive scale as it will help in meeting the drinking water difficulty and also in providing employment in the village. I am to send a fortnightly report to him about the progress and it will be my unpleasant task to report the names of those Talukas where progress is not satisfactory. I would, therefore, request you to concentrate on this work and see that your proposals are received in any case by 25th instant in the prescribed proforma and the work commenced by 28th instant. I will arrange to sanction the proposals immediately."

Finally, during this scarcity period, there was a general plenty—in terms of financial resources. The Collectors had much greater facility of accommodating political demands than hitherto. The Government was insistent that the relief programme must not suffer due to paucity of funds. In a letter to the Collectors (D.O. R & F.D. No. SCY-1 372/78440-J dated August 3, 1972) it said:

"... you are aware that Government has been quite liberal in sanctioning allotments of funds under '64 Famine Relief' to the Collectors for starting and continuing scarcity works. It has time and again been made clear to the Collectors that in no case they should lag behind in starting scarcity relief works where necessary. Government will be providing adequate funds to enable the Collectors to arrange for the implementation of scarcity Relief Programme. Today the Government has sanctioned additional allotments to the Collectors in your division as mentioned in the appended statement .... I would like you to impress on the Collectors that looking to the gravity of the situation and the need for giving relief to the scarcity affected people, they should not hesitate in starting relief works and that there should be no complaint that works are not being started by the Collectors for want of funds. ..."

The policy enunciated by the Government was clear. Scarcity works had to be started to give employment to the affected. Wherever, the people were unemployed, the need for starting scarcity works was obvious. Thus, the political demands were in the nature of bringing to the notice of the Collectors where such a need existed. The examples cited above, regarding the restarting of metal breaking centres demonstrate the acceptance by the officials of such types of demands. Other demands related to location and kind of work to be started. Location did not present such a problem because it was easy to establish more than one scarcity work if the situation

warranted. Naturally, a work could not be started if the labour was not available. Thus, the parameters of the situation seemed to be clear to both administrators as well as the politicians.

However, conflicts arose in pursuit of policies that were meant to give benefits to the backward classes. There was a case of a hunger strike by a group of persons against the delay in starting a percolation tank. These people knew that the tank would submerge the lands of the backward classes. This resulted in pressures and counter-pressures and finally the rains came to the rescue of the administration when funds for scarcity works were withdrawn.

Significantly, facility of accommodating political demands was based on easy availability of funds. Probably, this single characteristic takes away much of the sting from the relationship between the administrator and the politician. Competition for scarce resources is the major phenomenon of our political system. Politicians are attracted in maximising gains from the distribution machinery because their influence and stay in power depends upon that. The conflict situation arises with the central planning system giving the responsibility for resource distribution to the state machinery and politicians depending on the mercies of this machinery for their own survival. Such a situation did not exist in Maharashtra during scarcity for the administrative machinery was ready to satisfy political demands, thus eliminating competition. Cooperative behaviour was the result.

Easy accommodation also led to psychological satisfaction to both the groups. The administrators were satisfied that they could give and the politicians were satisfied because they could get what they demanded. Administrators had to spend money to begin scarcity works and provide employment and they did not want to leave any room for complaint. Complaints would come from politicians; hence their importance in affecting administrative effectiveness. On the other hand, the politicians realized that scarcity works and ensuing employment provided them with political support necessary for staying in power and these could not be successfully accomplished unless they gained support from the administrative machinery. Probably, it was in reference to such a situation that we heard remarks said half in jest and half in seriousness: "Our boys could win elections at that time" or "we helped the ruling party to win elections in 1972".

This recognition of mutual need brings us to our final observation. It seems to us that the bureaucracy was no more a faceless, anonymous bureaucracy in Maharashtra during the emergency. The civil servants were playing significant political roles. They were going out to the people, responding to popular pressures and publicly defending the work that they had undertaken.

The district officials were meeting leaders of the opposition and, in one case, as a Collector mentioned, he offered to tour the whole district with a critical leader to test out the veracity of his allegations. There seemed to be a merging of roles which was legitimized by the recognition granted to it by both the groups.

There is also a significant feature of the political context in which these relationships converged on cooperative behaviour. The ruling party had a complete majority in all the elected institutions. The delegation of Members of Parliament was dominantly Congress with about 93.3 per cent representation. In the state assembly, the Congress had a majority of 82 per cent of seats. In the Zilla Parishads average majority was around 69 per cent. Probably, this helped the Chief Minister in presenting an integrated and unified political direction to the administrators.

Let us emphasize here that one should not get away with the impression that the picture of political administrative relationship was that of perfect harmony in Maharashtra during the emergency. There were disharmonies but the general picture was marked by the above dominant features.

In summarizing our findings, we find that the non-official leadership duly acknowledged the role of the administrators and they in turn accepted the politician in implementing the scarcity works programme. The administrators particularly emphasized the role of politicians in resolving disputes that related to land acquisition for scarcity works and their site selection. Overall there was a more positive reaction to each other.

Several explanatory hypotheses were cited for this kind of phenomenon. For one thing, there was more frequent and open communication between the political leadership and the administrators. The Chief Minister himself often travelled through the district carrying a bevy of officials from the secretariat and joined by the Divisional Commissioner, District Collector and other officials of the District. Time was spent in inspecting scarcity works and listening to people. Then the evening was spent with officials describing their difficulties. Decisions were immediately taken and orders were issued, then and there. An atmosphere of urgency was created and everybody was psychologically satisfied with a sense of participation in the decision-making process. This open communication also constantly focussed attention on tasks at hand and provided clear direction for their achievement. Satisfactory progress in task achievement was recognized. This had a new kind of psychological environment.

The administrators did not work in the atmosphere of scarcity of resources. The purpose of the programme was to give employment to



whosoever demanded it. The situation was that of the politicians demanding and the administrators satisfying. This further reinforced the new kind of psychological environment. Both felt the need of the other. While the politicians helped in easing tensions and resolving disputes, the administrators implemented policies. It was not as if perfect harmony reigned, but disharmony was rather an exception than the rule.

Evidently, the situational context changed considerably to alter the character of mutual interaction. There was open communication, frequent face to face contact, specific goals with clear direction and the need felt by both of each other in attaining these goals. These features are also some of the preconditions of cooperative behaviour as summarised by Deutsch.<sup>9</sup> In a similar context, Sherif<sup>10</sup> has formulated the concept of superordinate goals on the basis of his experiments on intergroup conflict and cooperation. This concept emerges from an assumption about inter-group conflicts; if conflict develops from mutually incompatible goals, common goals should bring about cooperation. Common goals should be such that have compelling appeal for members of each group but that neither can achieve without participation and help from the other.

Apparently, the scarcity situation in Maharashtra provided conditions for cooperative behaviour as well as compelling reasons to the politicians and the administrators of working together. Superordinate goals were easily perceived and formulated. Mutual need was quickly recognized and a congenial working relationship developed. Probably, this happened in spite of hostile images and counter images and therefore underlies the significance of the characteristics of situations in promoting conflict and cooperation between groups.

We feel that the data strongly suggest that the way we have attempted to explain the relationship between administrators and politicians is more fruitful than the approaches basing themselves on historical legacy or social background dichotomy.<sup>11</sup> For individual roles are determined by the structural constraints and demands of the situation. Roles are not played in a vacuum where mutual perceptions are stable for all time to come. Technology of work and demands of environment on the organization shape the patterns of individual roles.<sup>12</sup> The new nature of organizational goals and the demands made by the scarcity situation on the state changed its character

<sup>9</sup> M. Deutsch, *Conflict and its Resolution in Conflict Resolution: Contributions of the Behavioural Sciences*, 1971, U. of Notre Dame Press, Notre Dame, 1966.

<sup>10</sup> M. Sherif, *Group Conflicts and Cooperation: Their Social Psychology*, Routledge and Kegan Paul, London.

<sup>11</sup> Braibanti and Spengler, *op. cit.*

<sup>12</sup> E. J. Miller and A. K. Rice, *Systems of Organisation: The Control Task and Sentient Boundaries*, 1967, Tavistock, London.



to adapt itself to the new circumstances. Administrators and politicians were the same individuals but their mutual relationships changed considerably with the change in the demands of the task system.

Therefore, it becomes necessary to investigate the relationship between politicians and administrators in the context of a particular programme activity and see whether a general pattern emerges in cases of conflict or cooperation between the two groups.



## BUREAUCRATIC RESPONSE TO EMERGENCY: AN EMPIRICAL STUDY\*

Mohit Bhattacharya

THIS paper is based on field studies undertaken in two districts of Maharashtra—Poona and Aurangabad—which along with 19 other districts were very badly affected by near famine conditions due to successive failure of rains between 1971 and 1973. Large scale relief operations had to be mounted by the State Government to avert a disaster of the worst kind. The purpose of this study is to explain the nature of the administrative organization that had come into being to meet the challenge of the emergency.

There are not many studies in India focussing on administrative structure and behaviour in emergency. Two studies on the Poona Dam burst in 1961 deserve special mention in this context. Sulabha Brahme and Prakash Gole<sup>1</sup> did a study of the extent of damage caused by the disaster and the relief measures undertaken to alleviate the misery of the afflicted population. It is more a survey of the disaster-stricken population and the subsequent relief measures—both public and private—than a study of public administration in a disaster situation. The other study by Allen Grimshaw<sup>2</sup> of the same episode is part of a cross-cultural research focussed on the relative success or failure of administrative organizations in meeting disaster situations. With the help of carefully chosen dimensions of bureaucracy, such as accountability, responsibility and autonomy, Grimshaw has attempted to find out administrative response to emergency in three countries, viz., U.S.A., Mexico, and India. His major finding of the Poona study is that, in India, field administration has in normal times accountability and responsibility, but no autonomy. It is absence of autonomy which he suggests was responsible for the collapse of bureaucratic decision-making apparatus in the face of the disaster. In the post-impact period, the success of administrative organization was possible due to the introduction of autonomy through the posting of a high-ranking officer on the spot. This finding has important implications for field administrative organization both in normal times and in emergency.

\* I am grateful to Professor Ishwar Dayal for his comments on an earlier draft of this paper. Very helpful exchange of ideas with Professor Kuldeep Mathur, the co-author of the main study Report on the subject, is also gratefully acknowledged.

<sup>1</sup> S. Brahme and P. Gole, *Deluge in Poona*, Bombay, 1967, Asia Publishing House.

<sup>2</sup> Allen D. Grimshaw, *The Impact of Natural Disaster on Governmental Bureaucracies in three Cultural Settings* (Read at Annual meeting of the American Sociological Association, Montreal, 1964) Unpublished.

## CONCEPTUAL FRAME

Disaster studies undertaken by a number of American scholars have yielded a rich variety of generalizations about organizational response to emergency situation. At the macro level, the concept of 'synthetic organization' has been used by Thompson and Hawkes<sup>3</sup> to suggest interorganizational alliances to increase the coping ability in a disaster situation. A disaster can be looked at as a change in the 'task environment' of an organization, precipitating a sudden increase in the discrepancy between organizational demands and organizational capacity.<sup>4</sup> In a high stress situation as in a large scale disaster, organizational response to the demand overload is expected to manifest itself in important changes in organizational capacity.

This study of crisis administration revolves round the manner in which public administrative apparatuses sought to react to drastic environmental changes. In organizational theory literature, there are quite a few significant studies dealing with the transactional relationship between the organization and the environment. Specific mention may be made in this connection of the writings of Emery and Trist, Rice, Burns and Stalker, and Lawrence and Lorsch.<sup>5</sup> These studies are useful in conceptualising the environmental context and in relating organizational response to changed environmental conditions.

The bureaucratic model, however, is the main reference point of the present study and the substantive concern has been to conduct the study along some of the important dimensions of the bureaucratic structure. According to the Weberian formulation, a bureaucratic organization exhibits certain characteristics such as fixity of position, division of labour, hierarchy, and the rule of rules. Each position in the organization and the duties and responsibilities attached to it are clearly and formally specified. Work is systematically divided in the organization. There is a regular arrangement of positions in a hierarchy with each official responsible for his subordinate's actions and in turn responsible to his superior. The structure and operations of the organization are governed by methodically prescribed rules.

In this way, the Weberian model lays down conditions for a reliable, stable, rational and predictable bureaucratic machinery. We are not going to

<sup>3</sup> J. D. Thompson and R.W. Hawkes, "Disaster, Community Organisation and Administrative Process", *Man and Society in Disaster*, ed. by George W. Baker and D. Chapman, New York, 1962, Basic Books.

<sup>4</sup> J. Eugene Haas and T.E. Drabek, *Complex Organisations*, New York, 1973, MacMillan.

<sup>5</sup> F.E. Emery and E.L. Trist, "The Causal Texture of Organizational Environments, (1965)", *Human Relations*, 18:21-32; A. K. Rice, *The Enterprise and its Environment*, London, 1967; Tavistock Publications; Tom Burns and G.M. Stalker, *The Management of Innovation*, London, 1961, Tavistock Publications; Paul R. Lawrence and J.W. Lorsch, *Organisation and Environment*, Homewood, 1969, Ill.; Richard D. Irwin,

discuss all the criticisms against the model which would require a full volume to put in all that has taken place after Weber.<sup>6</sup> What seems important for our study is the enquiry: What kind of bureaucratic organization comes into being during an emergency, when there is tremendous environmental pressure on a public bureaucracy? What happens then to the structural elements of the bureaucracy as mentioned above? If significant divergences come to light in an emergency situation, bureaucratic theory may have to be considered as specific situation-bound and not one that has universal applicability irrespective of changes in environmental contexts.

#### HYPOTHESES

Leaning against these conceptualizations relating to organization-environment transaction and the bureaucratic organization, this study has been guided by the following key hypotheses:

- (i) There will be a convergence of organizations to increase the ability to cope with the emergency;
- (ii) The organizational capacity will be enhanced to suit the requirements of the crisis situation (This is closely related to the first proposition); and
- (iii) The bureaucratic organization will exhibit changes in such dimensions as work organization, authority and hierarchy, and rules application in order to introduce flexibility in overall operation. With the loosening of the hierarchy, it is anticipated that decision-making will not be at fixed points, and control and communication will be directed more toward functional success than mere authority expression.

These hypotheses relate broadly to both macro and micro structure of relief organization. The phenomenon of organizational convergence and the need for altering the organizational performance structure to enhance the coping ability of involved organizations refer to organizational accretions in response to emergency. Both are focussed on the broader framework of relief organization which would go to determine the availability of organizational resources to meet the emergency situation. The internal dynamics of the bureaucratic organization are sought to be studied by locating changes in specific structural components and identifying consequential operational shifts as manifested in decision-making, control and communication, and delegation. It is hypothesised that the bureaucratic organization at all levels will undergo dimensional changes to facilitate flexible operations in a crisis situation fraught with all kinds of uncertainties.

<sup>6</sup> See in this connection Nicos P. Mouzelis, *Organization and Bureaucracy*, Aldine Publishing Co., Chicago, 1967.

## METHOD

Within this frame, relevant data for the study were collected through: (a) interviews, (b) field visits, (c) questionnaire on officials' response, and (d) secondary sources such as official reports and returns and government orders. At different levels—secretariat, division, district and sub-district—various officers dealing with scarcity relief operations were interviewed. Field visits were made to two acutely affected districts, viz., Poona and Aurangabad to gather first-hand knowledge of the situation. The questionnaire was administered to a cross section of officers at different levels who had actually been engaged in the operations. The purpose was to understand their perception of the working of the relief organization, as compared to normal administration. There are excellent secondary sources of data in the form of government reports and orders, as the Government of Maharashtra had been carefully watching the developing situation and all the time trying meticulously to codify the orders, rules and regulations.

## STRUCTURE OF ADMINISTRATION DURING NORMAL TIMES

Since the main thrust of the study is toward the understanding of organizational change during emergency, a brief look at the normal-time structure of administration at different levels will be helpful in appreciating the extent of change. The Secretariat consists of a number of departments most of which are charged with line functions and some like the Finance Department and the General Administration Department have to do staff functions. For our purposes, notable line departments are Revenue and Forests Department, Buildings and Communications Department, Irrigation and Power Department, Agricultural and Cooperation Department, Rural Development Department, Industries and Labour Department, Urban Development, Public Health and Housing Department, and Food and Civil Supplies Department.<sup>7</sup> The line departments can be said to be normally inward-looking. This is proved by the fact that the last Administrative Reorganisation Committee<sup>8</sup> found as many as twenty inter-departmental committees set up to coordinate the activities of thirteen departments. Besides, there is the Secretaries' Committee to sort out interdepartmental matters. In this connection, the role of the Chief Secretary in achieving coordination deserves special mention. As the Administrative Reorganisation Committee observed, "the Chief Secretary is generally a part of any committee or group of officers concerned with high level policy particularly

<sup>7</sup> For a more detailed account of the Secretariat organization, see *Organization of the Government of Maharashtra*, Indian Institute of Public Administration, Maharashtra Regional Branch, 1966.

<sup>8</sup> Government of Maharashtra, *Report of the Administrative Reorganisation Committee*, Bombay, 1968, Government of Maharashtra.

during crisis. In fact, it is probably crisis administration that really utilises the role of the Chief Secretary as a coordinator”.

For the purposes of revenue and general administration, there is a hierarchy of spatial units consisting of the Division, District, Sub-division, Taluka, circle and the village. At the village level, the talati is the base line functionary of government. At successive levels, the circle officer, the tahsildar, the sub-divisional officer, the collector and the divisional commissioner look after their respective jurisdictions.

In the district, the collector along with the hierarchy of revenue officials constitutes the focal authority. There is some sort of a loose relationship between the collector and the district heads of departments. It is perhaps tradition rather than any secure legal foundation that supports the image of the collector as the eyes and ears of the government, and to the extent the Secretariat treats the office of the collector as the point through which information about field administration should pass to the State headquarters and *vice versa*, it tends to lend support to the coordinating role of the collector. Normally, however, there is evidence to suggest that the territorial units of functional departments such as the Buildings and Communications Department and the Irrigation and Power Department are upward looking rather than lateral-looking. They are vertically connected through the field hierarchy with the respective Secretariat departments. They may occasionally get in touch with the collector for specific purposes, but formally speaking, they are not subordinate to the collector. To give an instance, the Buildings and Communications Department has its territorial units in three hierarchical levels. The *circle*, at the top, is headed by a superintending engineer who is responsible to the Chief Engineer at State headquarters for administrative and general professional control of public works entrusted to officers of the Department within his circle. The middle tier is the *Division* which is generally coterminous with the jurisdiction of the collector's district. It is the executive unit of the Department and headed by an Executive Engineer responsible to the Superintending Engineer at the circle level. The lowest unit is the *Sub-Division* looked after by a sub-divisional engineer who, in turn, is responsible to the executive engineer at the divisional level. So, the chain of command and the normal line of communication and control are vertically moving from the Secretariat department through the circle and the division to the lowest territorial unit, the sub-division. The collector is not ordinarily involved in any way with the structure and operations of this set-up. Of course, he gets in touch with the district heads of departments at the meetings he would be calling periodically. Similarly, the divisional commissioner holds periodic meetings of the regional heads of departments to discuss matters of common interest. He advises the collectors under him, coordinates their activities and exercises general supervision. Between the region and the State headquarters, he serves as the connecting link.



## ZILLA PARISHAD AND STATE FIELD ADMINISTRATION

In recent times, the most important institutional development at the field level has been the emergence of the zilla parishads and panchayat samitis under the Maharashtra Zilla Parishads and Panchayat Samitis Act, 1961. The zilla parishad has been clothed with substantial powers covering almost the entire gamut of district development works. In a three-tier structure, the zilla parishad forms the highest and most powerful tier. The chief executive officer of the parishad is of the rank and status of a collector. The middle-tier, panchayat samiti, serves as the executive arm of the parishad. The parishad is a directly elected body and the village panchayats are represented on the middle tier through the sarpanchas elected from their electoral colleges. The members who are elected to the parishad from a particular block area are taken as members of the panchayat samiti. This shows the linkages between different tiers. For the supervision of the activities of the village panchayats, considerable controlling powers have been vested in the samitis and the parishad.

With the formation of the zilla parishads, the entire field administration has been split up into two sectors: the State Sector under the State Government and the Local Sector under the Zilla Parishad in association with the units below it. The State Government has retained considerable controlling and supervisory powers over the activities of the parishad. Even in normal times, the government can authorise an officer to inspect any works and give technical guidance, give directions regarding works and development schemes, and undertake inspections and call for records and returns. The divisional commissioner is the chairman of the Divisional Selection Board for the recruitment of certain categories of technical personnel. The coordination of the State and Local Sector development schemes is achieved through him, and he is responsible for effecting coordination between the regional heads of the different government departments and the zilla parishads. Similarly, the collector is the chairman of the District Selection Board for the recruitment of staff to class III and IV posts. There are two important statutory provisions which are of particular significance for the present study. Under Section 268 of the Act, in cases of emergency, the collector has been authorised to provide the execution of extraordinary work, or the doing of an act, which a zilla parishad or panchayat samiti is empowered to execute or do. The collector has, of course, to report his action to the divisional commissioner who may either modify or confirm it. The other provision relates to the duties of the zilla parishad during famine, scarcity, floods or any other natural calamities. Under Section 107 of the Act, "where the State government during any year has declared any area as famine stricken and or an area of acute scarcity, and has granted suspension or remission of land revenue . . . or where distress is caused by floods or other natural calamities in any area, it



shall be the duty of the Zilla Parishad having jurisdiction over the area, if so directed by the State Government, to undertake relief operations in such area either by the grant of gratuitous relief in the form of doles of money or through expenditure on such public works or such preventive or remedial measures as may be specified by the State Government in the direction."

The effect of all these provisions is that although the zilla parishad has been constituted as an autonomous organization, the law provides for considerable flexibility so that the zilla parishad machinery can, in emergency, be made to keep in step with state directives and guidance.

In normal times, the field units of the functional departments of government such as the Buildings and Communications Department and the Irrigation and Power Department work in close association with the zilla parishad. For instance, the Government has laid down certain conditions which the zilla parishads are required to follow in the execution of road development schemes. It is the responsibility of the State Buildings and Communications Department to assist the parishads in maintaining the technical standards. The Superintending Engineers at the circle level give technical guidance and assistance to the engineering departments of the parishad. The survey and preparation of road development schemes of the parishads are undertaken by the Road Project Divisions of the Buildings and Communications Department. Technical guidance is also given by these Divisions for the projects prepared by the parishad engineering departments for execution from the parishad's own resources. Similarly, contacts exist in normal times between the field units of the Irrigation and Power Department and the Irrigation Wing of the parishad.

#### STRUCTURE OF RELIEF ORGANIZATION

What kind of bureaucratic organization should take over the tasks of relief administration and how the entire operation has to be planned and executed—all this has been very carefully codified in the Bombay Scarcity Manual which was drafted in 1954 in replacement of the old Famine Code of 1885. Broadly speaking, the organization that was mounted during the last scarcity relief works followed the model of the Manual. For detailed analysis, the structure of relief organization that had come into being during the recent scarcity relief work can be described in terms of levels of administration. At the level of the *Headquarters Organization* of the Government, there came up the Cabinet Sub-Committee on Scarcity consisting of the Chief Minister and the Ministers in charge of Finance, Revenue, Agriculture, Irrigation, and Buildings and Communications. The Secretariat organization was given a unity through the Secretaries' Committee presided over by the Chief Secretary. The Secretary, Revenue and Forests Department, was Secretary to this

Committee. The Revenue Secretary became the vital link between the field and the Secretariat in all matters relating to scarcity relief administration and kept the government informed about the operations at the ground level. The Revenue and Forests Department became the focal department at the Secretariat level in keeping an overall view of scarcity administration. Depending on the tasks to be performed at the field level such as construction works of all kinds, irrigation works and soil conservation, the functional departments most involved in the execution of different schemes were the Buildings and Communications Department, Irrigation and Power Department, Agriculture and Cooperation Department.

At the regional level, the Divisional Commissioner was made responsible for the supervision of the relief programmes within the division. The Commissioners were to report periodically to the government their observations on the method in which the scarcity relief programme was being implemented in their divisions, the difficulties faced by the implementing agencies and the attempts made to remove these difficulties. They were empowered to requisition trucks from government departments within the division and place them wherever necessary, and authorised to purchase tools required for scarcity relief works. For the distribution of *tagai* loan among the farmers, funds were placed at the disposal of the commissioners. They had to hold fortnightly meetings of officers at different levels to bring to the personal notice of the officers important orders issued by the government.

In the case of other functional departments such as the Buildings and Communications Department, the unity of command and departmental hierarchy were significantly affected by placing the Executive Engineers and Sub-Divisional Officers directly under the control of the Collector. The Superintending Engineers, who are the controlling officers in normal times, were mainly entrusted with the task of offering general guidance, ensuring supply of tools, preservation of tools and records, and seeing that departmental instructions were followed by the officers like the executive engineers, sub-divisional officers and other staff.

At the district level which has been the main theatre of relief operations, the collector occupied the pivotal position. His supremacy was undisputed and he was clothed with all the powers necessary to match his responsibilities. The district level heads of departments were, for all practical purposes, placed under the collector. If there would be any doubt about 'authority relationship', the order from the Secretariat would immediately dispel it<sup>9</sup>. He had to prepare the scarcity relief plan, allocate work among the different

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<sup>9</sup> For instance, a clear government letter was issued explaining the subordination of the Executive Engineer and Sub-Divisional Officers to the Collector/the Chief Executive Officer, Zilla Parishad.

implementing agencies, secure funds, manpower and tools, ensure prompt payments to scarcity labour, supervise and control the entire operation personally and through the revenue hierarchy, remove bottlenecks, supply fodder and foodgrains, and in fact do the whole range of functions mentioned in the Scarcity Manual and some more. The responsibility for the successful conduct of relief operations was his, and to the state government, now represented largely by the Revenue Department, the point of reference at the district level was the Collector.

As the chief administrator of scarcity operations, the Collector had at his disposal all the implementing agencies such as the Buildings and Communications Department, Irrigation and Power Department, Agriculture and Cooperation Department (Soil Conservation), Forests Department and the entire panchayati raj organization headed by the Zilla Parishad. All this was in addition to the normal revenue hierarchy which would always be available with the Collector. Thus, with the integration of the district level establishment of government and the whole panchayati raj set-up, a huge and complex administrative machine was created which the Collector had been called upon to operate.

The normal organizational performance structure had to be changed by making changes in the resources structure. In other words, all kinds of resources — funds, personnel and material — had to be increased to enhance the capacity of the organization to meet the challenge. There was a clear directive to the collectors that works should not suffer due to lack of funds. To quote a communication to the collectors:

“I would like to impress on the collectors that looking to the gravity of the situation and the need for giving relief to the scarcity affected people, they should not hesitate in starting relief works and that there should be no complaints that works are not being started by the collectors for want of funds.”

(Secretary's D.O.R. & F.D., No. SCY-1372/78440-J, dated August 3, 1972 to all collectors.)

Similarly, need for more staff was met in a number of ways. Firstly, the collectors were asked to deploy their own staff on scarcity works. Secondly, certain sub-divisions of the technical departments like the Buildings and Communications Department and the Irrigation and Power Department were transferred to the collectors for engagement in scarcity operations. Thirdly, in consultation with the heads of departments, the collectors were empowered to requisition staff from other departments such as overseers, block development officers, extension officers, muster clerks and so on. Fourthly, the collectors were authorised to recruit, in consultation with the implementing

agencies, retired technical personnel like executive engineers, deputy engineers, overseers and mistries for one year. Also, they were empowered to create temporary posts belonging to class III and class IV. Fifthly, technically qualified people volunteered, in some instances, to offer their services in honorary capacity. Lastly, delegation of powers to lower functionaries had the effect of augmenting manpower.

Steps were taken to increase the supply of much-needed materials such as tools and equipments, trucks and jeeps and other vehicles, fodder, food-grains, water and medicines. The supply of items like tools and fodder were enhanced by outright purchase, and by the manipulation of existing resources available with other departments and organizations. For instance, the Buildings and Communications Department issued instructions to all the Superintending Engineers to spare one or two road rollers to the Zilla Parishads on demand. For trucks, jeeps and other vehicles, the Collectors were authorised to requisition these from other government departments and even from private individuals, factories and cooperatives. Help from the Army authorities, private industry, municipal organizations, and voluntary and philanthropic institutions took a great deal of strain off the government agencies. A large number of non-official organizations rendered valuable help to the district authorities.

Another important phenomenon is the constitution of a number of committees for different purposes. At the state level, apart from the Secretaries' Committee, there were coordination meetings where the Chief Minister would be consulting the members of the Legislature. Also, the Revenue Secretary had his quota of coordination meetings where the executing agencies would be present. The District Relief Committee with the Collector as Chairman consisted of all the district heads of departments, the chairman, the chairman of subject committees and the chief executive officer of the Zilla Parishad, all the MPs, MLAs and MLCs of the district and all the political parties in the district. At the taluka level, the Taluka Relief Committee had on it all the non-officials and officials belonging to that level. The Sub-Divisional Officer was the chairman of this committee. These committees were mainly to advise the government organization on relief matters, stimulate private charity and generally supervise works and the distribution of gratuitous relief.

A committee with the Collector as chairman and district heads of departments executing different schemes was constituted to facilitate inter-agency coordination and consultation.

A chain of committees was brought into being under a newly created Directorate of Medical Relief at different levels, viz., State and districts,

to organize and coordinate the various measures of medical relief undertaken by governmental or private agencies.<sup>10</sup> To keep watch on relief operations and to detect defects and corrupt practices on the works, a vigilance committee was constituted in each sub-division. The Sub-Divisional Officer was its chairman, and the other two members were the Deputy Superintendent of Police and one nominated non-official. One important function of this committee has been to keep a close watch on the working of fair price shops.<sup>11</sup>

Within the framework of enlarged district administration, the Zilla Parishad and its constituent units were intimately involved in scarcity relief operations. All kinds of works including road works, metal breaking centres, irrigation tanks, percolation tanks, desilting of tanks, village ponds and community wells were undertaken by the Zilla Parishad in association with the lower tiers. The larger programmes were looked after by the construction and irrigation wings of the Parishad. The Block Development Officer (BDO) along with the extension officers conducted general supervision of the works. The BDO was appointed as the drawing and disbursing officer for making payments to scarcity labour. Even the tiny village panchayats had their share of responsibilities such as upkeep of tools, feeding the sick and the old, drinking water supply and construction of community wells.

#### RELIEF ORGANIZATION AT WORK

This is an account of the 'performance structure' of the organization for scarcity relief operations. An attempt has been made in Fig. 1 to draw a picture of this organization. It shows an adaptive role-relationship pattern which forms a new 'normative structure' during scarcity relief administration. The subordination of the implementing agencies to the collector, the subservience of an autonomous elected body like the zilla parishad to him, even the way the collector was called upon to coordinate the complex relief machinery—all these marked a distinct role-reversal for everyone whose normal role was different from what he was being asked to do in emergency. The memory and habits of performance pattern in organizations, which in normal times are more independent than interdependent, would in all probability prove dysfunctional and produce strains during participation in a make-shift integrated organization. We would now try to capture, very broadly, what was actually going on inside the machine.

More pointedly, we would be interested to know: what happened to bureaucratic hierarchy and rules; how did the different levels of administration communicate between themselves; what were the control mechanisms

<sup>10</sup> G.R., U.D., P.H.L. H.D., No. SMR-1073/76316-(B)/V dated February 3, 1973.

<sup>11</sup> G.R., R & F.D., No. SCY-1373/8867-J-3 dated April 27, 1973, and G.C., F. & C.D., No. FPS-1073/15703-N dated May 19, 1973.

evolved to ensure unimpeded operations; how were decisions being taken at different levels; and what was the extent of delegation of powers in the organization. The findings are expected to identify the flexibility-producing factors in a crisis situation.

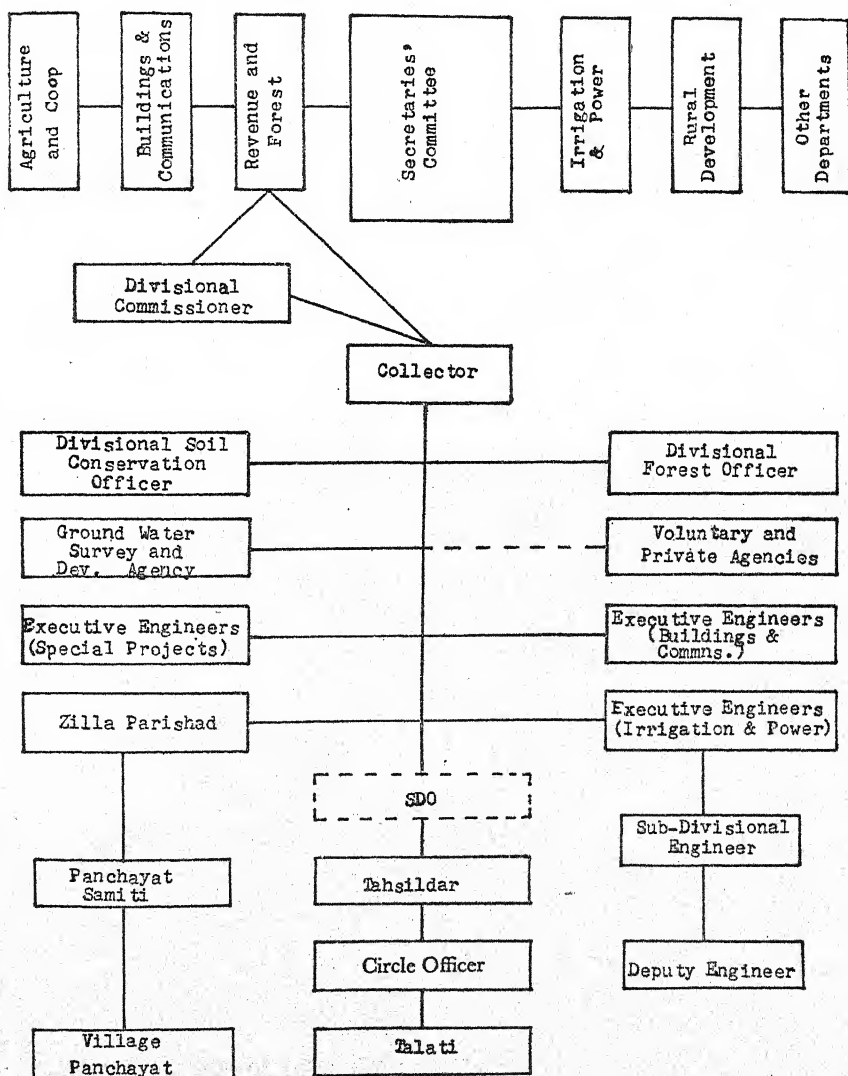


FIG 1 STRUCTURE OF RELIEF ADMINISTRATION

(Legend - - - indicates discontinuous, not regular, linkage)



## DECISION-MAKING

The emergency administration during scarcity had evolved three distinct layers of decision-making: the Secretariat including the Cabinet, the Collectorate, and the taluka/village. This is shown graphically in Fig. 2. Enormous quantity of field data were reaching the Secretariat from all directions through the Commissioner, Collector, field visits of Ministers and Secretariat officials. This provided a strong data base for top decision-making. Only thing that was necessary was to mount a mechanism to process the data and produce decisions. This was facilitated by the leadership role of the Revenue Department which proved to be the main agency feeding the Secretaries' Committee with relevant data. The committee was regularly converting the data into appropriate decisions. In taking decisions, the normal sacrosanctity of departmental boundaries was ignored, and the Secretariat departments were freely crossing the boundaries in the interest of avoidance of delays. Usually, if a department would be transmitting a decision that needed prior consultation with other departments, the decision would be issued with the concurrence of the latter. The Secretaries' Committee under the chairmanship of the Chief Secretary created an environment of harmony, which, coupled with the situational need, encouraged the departments to take decisions through consultation and collaboration. Many a time, decisions on urgent issues would be taken on the spot at the field level, when the Ministers and Secretariat officials would be visiting the districts. This, in effect, led to a kind of physical shifting of the Secretariat to the field.

Down below, the 'scarcity cell' in the Collectorate was the repository of all field data coming in from the different operating agencies. The collectorate was, on the one hand, acting as the distributor of decisions flowing down from the Secretariat; and on the other, it was taking certain decisions itself on what projects should be started in which place and who should undertake what kind of works. The list of projects would come initially from the taluka level where the Sub-Divisional Officer in consultation with the Taluka Relief Committee and the taluka level officials were preparing an inventory of suitable works that could be undertaken at different village centres. The lists of projects obtained from the different talukas would be consolidated at the collectorate level and the collector in consultation with the District Relief Committee would be finalising the projects inventory for the district as a whole. The Collector, with the advice and suggestions of the District Officers' Committee, would then select appropriate projects for actual commissioning. He would be allotting specific works to particular agencies. The inputs for decisions were often flowing in by way of demands expressed by the local village leaders either directly or through local officials such as the tahsildar and the block development officer. Other data gathering devices were the field visits of the Collector, the Sub-Divisional Officer and other



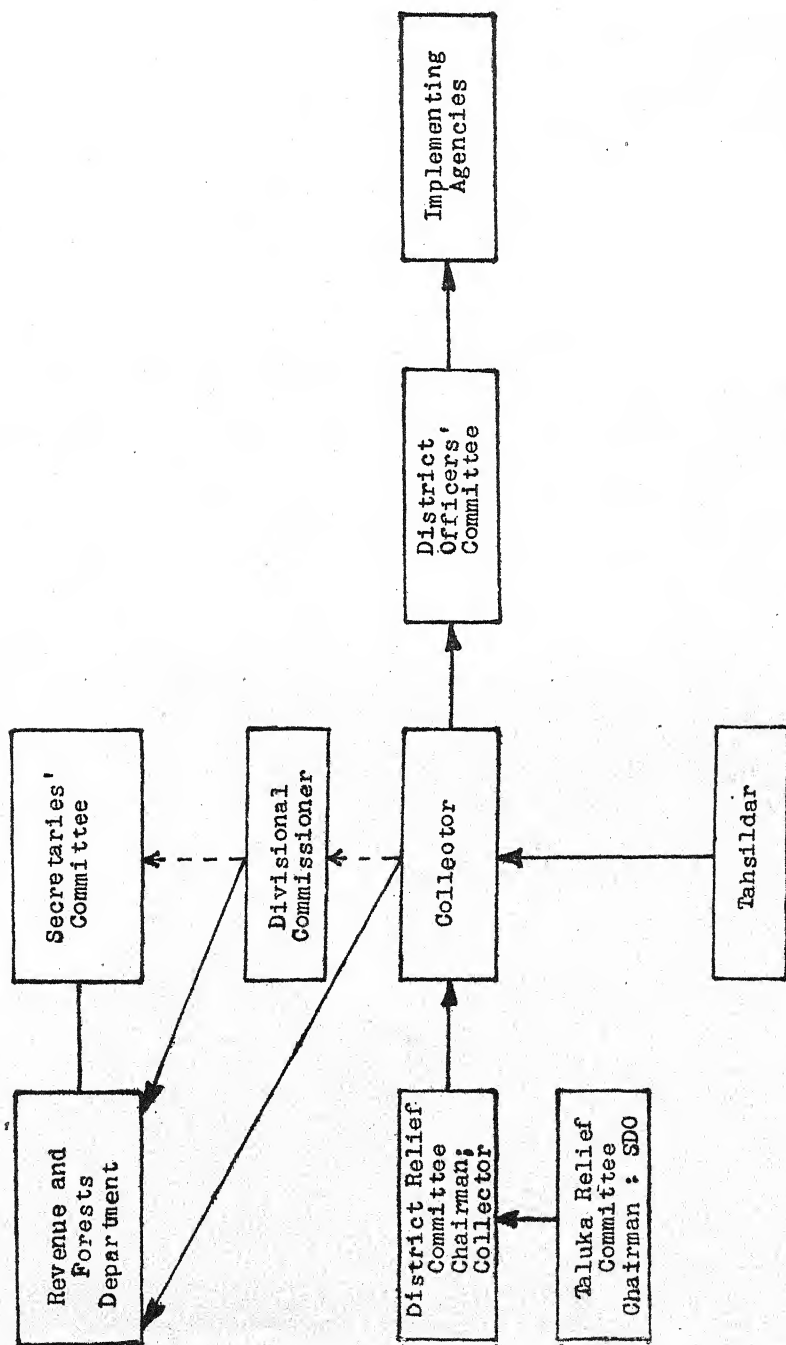


FIG. 2 DECISION MAKING PROCESS

revenue staff, and a regular reporting system between the collectorate, and the implementing agencies and field officials.

Certain types of decisions were allowed to be taken at the lowest level as it was felt that those who were living closest to the field situation had far better knowledge with which to take those kinds of decisions. Also, such a system of decentralised decision-making relieved the collector of his administrative load. A filtration process was thus built-in which enabled the collector to avoid the local pulls and pressures. This can best be illustrated by the decision-making process in selecting sites for community wells. The sites were initially selected by the members of village panchayat, who were then passing on their suggestions to the panchayat samiti. Next the BDO and the Deputy Engineer were to verify the sites as regards their suitability in accordance with the guidelines laid down by the government. The BDO, in consultation with the Deputy Engineer, was authorised to reject a site and suggest an alternative one. This process provided for initiative by the village leaders, reference to a higher-tier authority and final selection on the basis of technical soundness.

#### COMMUNICATION

The decision-making processes were supported by a system of communication that linked up the different decision centres. Since the organization during emergency had greater need for field data and information, a methodical information transmitting system was built up. Major forms of communication were reporting and issuing of orders and instructions, visits, meetings—both formal and informal, telephonic and telegraphic messages, and face-to-face contacts. The collectors were asked to submit to the Secretariat a number of fortnightly reports on the field situation. The collectors, in turn, were asking for similar reports from the operating agencies and field personnel. Meetings between officers at different levels and at the same level increased considerably which were either formally prescribed or informally organized. From the data collected, it appears that the number of meetings between district level officers had almost doubled during emergency, as compared to normal times.

One significant feature of scarcity administration has, however, been that the field orientation of officers from the Secretariat down to the District level has been distinctly evident throughout the operations. Enhanced interpersonal contacts and better knowledge of the field situation have been the direct outcome of the communication network evolved during scarcity.

#### BUREAUCRATIC RULES

In this connection, special mention should be made of the prolific issue of rules by the Secretariat to guide the field operations. In 1970-73,

as many as 350 rules and orders were issued. At the beginning, these were few and far between; as the crisis was deepening, the rules started coming like an avalanche. During peak scarcity between July 1972 and July 1973, more than 250 instructions were sent down to the field. This is indicative of the Secretariat's growing anxiety to bridge the psychological distance between the headquarters and the field. It is generally complained that the rigidity of rules stands in the way of their adaptability to changing conditions. As rules are elevated as ends in themselves, the Mertonian 'goal displacement' sets in. This kind of bureaucratic pathology was not evident to a significant extent during the scarcity relief operations, because of the incessant flow of rules from the Secretariat. Thus, instead of allowing a rule holiday, the headquarters organization saw to it that the rigidity of rules is promptly rectified by quick replacement, amendments or additions. Note the following directive from the Secretariat: "It has come to the notice of Government that immediate steps are no doubt taken to provide relief to the persons affected by the natural calamities; at the same time rules and regulations for granting such relief are not strictly followed; though the intention behind giving this relief immediately to the sufferers is to relieve the sufferers from the difficulties, while providing such relief it should always be ensured that no procedural irregularities are committed." (G.C.R. & F.D., No. CFL-5964/7314-S dated April 5, 1971). Thus there was no relaxation of rules, yet the tasks did not suffer owing to constant efforts at rules adaptability.

#### HIERARCHY

In a bureaucratic organization, hierarchy serves the purpose of role fixity. Since everybody's place in the organization is formally set, there is greater degree of predictability of behaviour. This kind of rigidity in role-relationships might suit a stable situation. In times of disaster, the organization's chief purpose would be to ease the pressure on it from the environment, for which new patterns of interpersonal relationship might emerge, and even be encouraged. This is confirmed by the working of the relief administration during the recent emergency. Cases of level jumping were quite common; the Tahsildar would frequently be communicating directly with the Collector by-passing the Sub-Divisional Officer. The Block Development Officer and the Executive Engineer of the Zilla Parishad were not always to go through the Chief Executive Officer to address the Collector. Such short-circuiting was in fact encouraged for the sake of quick action. To the extent this was happening, the rigidity of bureaucratic hierarchy was considerably modified. However, it was the higher authority—the Collector—who was really calling the tune. When flexibility was not needed, the collectorate would slide back to the normal mode of working and the tahsildar would be asked to submit proposals, say for community wells, through the 'proper channel'. In a period of hectic activities when everyone, howsoever placed

in the hierarchy, was concerned about quick relief measures, bureaucratic rigidity was sought to be replaced by a more functional flexibility. There were more face-to-face contacts among different role-incumbents. The Collector would be on tour for 12 to 15 days a month, the Divisional Commissioner and the Revenue Secretary were frequently visiting the affected areas, even the Chief Minister would be personally visiting a district once or twice a month. At the Secretariat level, the superior-subordinate relationship had undergone a change and lower level officials would be frequently meeting the superior officers disregarding normal hierarchy. The same thing happened at the district level where the Collector would be writing directly to the tahsildar and the block development officer, or call the Zilla Parishad engineer at odd hours. The new pattern of interpersonal relationship was naturally accepted by everybody concerned, as this was highly suitable for the emergency situation. At lower levels, the morale in consequence was very high and the personnel put in extra hours of labour without looking for immediate benefit.

Scarcity administration had evolved its own informal hierarchy pattern. The Tahsildar, for example, became an important point of reference at the sub-district level. Many a time he had assumed the position of a transmitter and distributor of information and instructions to the Block Development Officer and the Deputy Engineer of the Zilla Parishad. Being in constant touch with the Collector, he had come to enjoy some kind of a reflected authority which was accepted by the BDO and the Deputy Engineer.

Formally, the Collector's position was supreme at the district level. From the responses of other field officers, it appears that most district level functionaries perceived the Collector's authority as functional, which signified a large 'area of acceptance' of his authority. In practice, however, the Collector's authority was much less than what was formally envisaged. There were constant interventions from the highest level, as the political leadership and the State level administrators were all worried about the field situation. At the district level and below, the Relief Committees had their influences on him, and the local politicians had not turned good samaritans over night. Also, in the work organization, technology had to be respected in allocation of functions. Unpleasant decisions would sometimes travel up to the highest level wherefrom counter directions would be coming down to the field restraining the authority of the Collector. All this shows that the scarcity administration did not produce an absolutist concept of the Collector.

#### DELEGATION

There was substantial delegation of powers to officers at different levels, to enable them to perform the assigned tasks. The Collector, for instance,

was empowered to give administrative sanction, at the peak of scarcity, to schemes amounting up to Rs. 10 lakhs. Correspondingly, the Executive Engineer's power of giving technical sanction was increased to the same amount. Delegation led to the enhancement of organizational capacity without augmenting the already available resource structure. When the Block Development Officer was appointed as the drawing and disbursing officer, or the Sub-overseers were empowered to record measurement of works, these steps permitted the officers at these levels to undertake tasks which they would not be performing in normal times. In this way, the organization's capacity to cope with the emergency situation was increased by maximising the use of available resources. Two important consequences flowed from such delegation of powers. Delegation facilitated substantial reduction in normal bureaucratic hierarchy.

Another resultant benefit was the cutting down of procedural requirements and avoidance of administrative delay. Payments to scarcity labour had to be made very promptly, and one of the devices adopted for this purpose was to appoint the Block Development Officer as the drawing and disbursing officer, who could thus exercise this authority without reference to the Chief Executive Officer, Zilla Parishad. Delegation, during scarcity relief operations, thus, revealed the latent capacity of the organization to handle more tasks than what it ordinarily undertakes to do.

### CONTROL

In a massive operation of this kind, appropriate controls are necessary mainly for two reasons. Firstly, these are needed for monitoring purposes. A constant watch is necessary on field performance so that corrective action can be taken in time. Secondly, controls are useful in ensuring accountability. A system of controls was built into the scarcity organization through specific roles and an elaborate communication pattern. The major control points were the Revenue Department at the State level and the collectorate at the district level. By way of feedback, relevant field data were gathered at these two points through a planned system of reporting. The collectorate would be the first tier from where detailed consolidated reports on district scarcity administration would be passed on to the Revenue Department. This process was helpful in evolving an information-based control system.

Information was being collected through other methods also such as visits, inspections, and meetings—both formal and informal. In consequence, scarcity administration had come to develop an "interaction—  
influence system" which seemed to have turned control into guidance and helped to boost the morale in general. The Chief Minister along with high officials would be coming down to the district and giving instructions on the spot. The Divisional Commissioner, while on tour of the affected areas,

would be noticing the malfunctioning of community wells project which he would immediately bring to the notice of the Collector suggesting corrective action. The Collector in his turn would impress upon the lower level functionaries such as the Tahsildar and the Block Development Officer the need for speedy action and fulfilling specific targets. These interactions between different functionaries produced intraorganizational integration. The controls from the secretariat through the issue of rules and instructions ensured conformance to standard procedures and accountability of the field level officers to the State Government *via* the Revenue Department.

An important feature of the system of controls evolved during emergency was that it was geared to the achievement of specific operational tasks such as construction of roads, percolation tanks and community wells. At the district level, the tasks were being allocated to different implementing agencies, and controls were being exercised to achieve specified targets. There was thus close approximation to a management-by-objective model within which controls tended to be more purposive and specific tasks oriented.

Delegation of powers, as earlier described, led to the dispersal of a great deal of controlling authority among a number of lower level functionaries such as the overseer, the Block Development Officer and members of the village panchayat. For instance, the BDO in consultation with the Deputy Engineer was authorised to supervise the site selection operation for community wells, and they could even reject the proposals of village panchayats. Following Tannenbaum<sup>12</sup>, one can suggest that controls within scarcity organization had increased more than in normal administration. With power assigned to functionaries at different levels, scarcity organization paved the way for enhanced participativeness.

#### BUREAUCRATIC RESPONSE: AN OVERVIEW

Gleaning from the narration just completed, we may now try to build up an integrative picture of the nature of bureaucratic response to emergency. Turning first to organizational convergence, there was clear evidence of organizations of all kinds getting together to face the challenge of scarcity. The departments of government, the panchayati raj organization, and a host of public, semi-public and private organizations joined hands together to give succour to the affected population.

There are clear indications that the organizational performance structure was considerably altered to suit the needs of the emergency and to increase organizational capacity to cope with the demand overload. As a new administrative structure was evolved, it meant adoption of a new normative

<sup>12</sup> Arnold S. Tannenbaum, *Control in Organizations*, New York, McGraw-Hill Book Company, 1968.



structure with new roles and relationships. The interpersonal structure of scarcity organization had its own peculiarities. There is evidence to suggest relaxation of formalism and hierarchy and the use of more face-to-face contacts. Within the common framework of a shared goal, the relief organization experienced a more relaxed superior-subordinate relation, and functional, rather than formal, interpersonal relationship. The resources structure of the emergency organization had undergone substantial changes including augmentations of personnel, material and financial resources in order to enhance its coping ability.

The structural elements of the bureaucratic organization, viz., role fixity and hierarchy, division of labour and rules application, had undergone significant changes. The emergency administration evolved its own structure within which new roles had appeared. The collector's span of control and attention had both increased. The officers of the engineering departments were taken away from their vertical departmental lines and placed under the collector. There was a merger of state administration and panchayati raj administration. All these are instances of role changes during emergency.

The technology of distinct tasks had to be respected in allocating works to different organizations. Thus, division of labour was largely along older organizational boundaries. Yet, there were intermittent transfers of resources of all kinds between one organization and another. Personnel and vehicles, for example, were moved from one department to the other to facilitate the accomplishment of tasks. Bureaucratic hierarchy had shed some of its rigidities, as the officers at different levels were meeting more frequently and visiting the affected areas and giving advice on the spot. There were instances of level-jumping. A few hierarchical levels were cut out to reshape the organization. For instance, the tahsildar was in direct touch with the collector, and not generally going through the SDO. The tahsildar had the reflected glory of the collector. At the ground level, he had become the linkman between the collector and all other functionaries such as the BDO and members of the panchayats. What happened was that the rigidity of hierarchic formalism was greatly reduced under the impact of scarcity and a kind of informal organization had grown up at the lowest level. There was a greater degree of inter-personal contacts at all levels as everybody, irrespective of his official rank, was anxious to alleviate the misery of the afflicted population.

A striking feature of the emergency operations was the torrential issue of rules. The Secretariat was in no mood to relax the rules governing ground-level operations. Instead of minimising the importance of rules, orders and instructions were regularly being issued with greater frequency and in larger number. Thus there was constant insistence on the observance of



bureaucratic formalism. The rigidity of bureaucratic rules which could have been disastrous during emergency was circumvented not by declaring a rules holiday but by ceaseless outpouring of rules. In a crisis situation, the headquarters administration was making its constant presence felt at the field level through the incessant issue of rules and instructions. This phenomenon gives evidence of an attempt on the part of higher level administration to converge at the scene of disaster.

As the bureaucratic structure showed signs of changes, this manifested itself in new modes of decision-making, rapid communication flows, increased delegation and purposive administrative controls. Strategic decisions regarding priority works, allocation of resources and personnel were concentrated at the Secretariat level. Operational decisions concerning screening of projects, their locations and tasks allocation among different agencies were being taken at the district level. At the lowest level, certain decisions were allowed to be taken by such functionaries as the BDO and members of the village panchayats. This three-tier structure was intimately interlinked. There was constant feedback from the field to the headquarters. Similarly, the headquarters organization was in constant touch with the ground level operations. Decision-making at each point in the vertical line was data-based, and there was a close match between the type of decisions and the decision-centre in each case, based more or less on the technical competence of each centre and availability of data at that particular point.

The communication process built up through a regular reporting system lent support to the decision-making structure. Other modes of communication were issue of rules, frequent field visits by ministers and secretariat officers and occasional visits to Sachivalaya by the field officers like the Divisional Commissioner and the Collector. Communication had become more humanised when the State political bosses met the field officers at frequent intervals and gave them encouragement. Similarly, superior officers from the Secretariat were in constant touch with the personnel engaged in actual operations. This had the effect of engendering a sense of camaraderie among all classes of personnel bearing the heavy burden of scarcity works, and raising the morale especially at lower levels of the bureaucracy. Delegation of powers to lower level functionaries facilitated speed in operations. It had also permitted the personnel at the operational centres to exercise more power which satisfied their ego considerably.

In a large scale operation like the one just described, it was not possible to depend on traditional control mechanisms such as calling for records and returns, inspections and spot visits. The reporting system did, of course, serve the purpose to some extent, but whatever controls were actually exercised had to be left to be exercised by the touring officials and the vigilant local

village leaders. The formal controls were instituted more for monitoring purposes than for tightening up administrative supervision. What was more important during the crisis was not negative control but positive guidance and removing of operational bottlenecks.

To conclude, the bureaucratic organization during the Maharashtra emergency operations appeared to have shed much of normal-time rigidity. There were significant changes in the basic structural components and operational nuances of the bureaucracy which seem to suggest that in an emergency of this kind, the bureaucratic organization would not be the same as the Weberian inflexible and impersonal machine.

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## RELIEF PLANNING IN MAHARASHTRA\*

*Sudipto Mundle*

THE widespread occurrence of drought in 1972-73 and again in 1973-74 has had a sobering effect on our optimistic expectations regarding the performance of agriculture since the launching of the New Agricultural Strategy. It now seems that Indian agriculture will continue to be dependent on natural climatic factors for quite some time to come. Moreover, since these natural climatic conditions turn out to be disastrous after every few years, it seems that we shall have to live with the phenomenon of drought till such time as when our irrigation facilities are sufficiently developed as to render the agricultural sector more or less independent of these climatic factors.<sup>1</sup> Under these circumstances the planning and execution of drought relief programmes assume great importance, particularly because such programmes are aimed at protecting the rural poor who are most vulnerable to these natural calamities.

This paper evaluates the planning and execution of one such drought relief employment programme (henceforth referred to as DREP) in Aurangabad district of Maharashtra which was one of the worst affected districts during the drought of 1972-73. In particular, the paper examines to what extent the planning and execution of DREP was consistent with the overall objectives laid down for the programme. It also attempts to measure the impact of an explicit relief planning exercise on efficient implementation of the programme.

The programme evaluation criterion has been set out in Section 1. In Section 2 this criterion has been applied to evaluate the 'Scarcity Plan' which was formulated for generating relief employment in Aurangabad district during the latter half of the agricultural year, 1972-73. The impact of this 'Scarcity Plan' on the actual operation of DREP in Aurangabad has been analysed in Section 3. Finally the major policy implications of the paper have been remarked upon briefly in Section 4.

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<sup>1</sup> On this question, see Report of the Irrigation Commission, Government of India, 1972. Also A. Rangaswami, "Financing Famine Relief: Calling the Bluff", *Economic & Political Weekly*, Vol. IX, Nos. 45 & 46, Nov., 1974.

## 1. THE PROGRAMME EVALUATION CRITERION

It is always possible to employ some 'ideal' theoretical project evaluation criteria which bear no relationship to the specific circumstances or constraints under which a particular programme was undertaken and then smugly conclude on the basis of such unreal criteria that the programme in question was an economic disaster. While the setting up of such criteria might have some aesthetic appeal for the economic theorist, their relevance to an administrator on the field is often quite remote. Consequently, in this paper, we have tried to set up a criterion of evaluation which is based on the specific objectives which were laid down by the government for DREP and which is related to the conditions under which the programme was undertaken.

Drought, like any other emergency, entails policy choices which deviate from the normal development path, *i.e.*, the redeployment of some development expenditure for the drought relief programme. Under these circumstances the desirable course of action would be to adopt 'second best' choices in the sense of relief programmes which cater to normal developmental objectives as far as possible subject to meeting the requirements of the emergency. The government itself recognised this sound economic principle, in laying down the objectives of DREP, by repeatedly stressing that resources should be employed on productive works so that DREP did not become an unnecessarily wasteful diversion of scarce developmental resources.<sup>2</sup>

Since the government itself attached prime importance to 'productivity' as a determinant of priorities in the allocation of resources under DREP, this has been adopted as the basic objective in setting up our programme evaluation criteria in this paper. Operationally this would mean that a higher weightage would have to be given to those categories of projects in DREP which would ultimately lead to an expansion of output or improvement of services. Moreover in the context of a drought prone area 'productivity' should be interpreted so as to include contributions of a project not only towards *expansion* of agricultural output but also *stabilisation* in the sense of reducing or eliminating those factors such as dependence on rainfall, etc., which lead to high instability and frequent collapse of agricultural operations.

In terms of 'productivity' as we have just defined it, the different types of projects under DREP may be grouped into three broad categories. See Table 1.

Of these, irrigation works of category A are by far the most productive. The basic development strategy in Maharashtra's 5th Five Year Plan is to

<sup>2</sup> See (i) B.K. Chougule, Plan of Works<sup>2</sup> to Meet the Scarcity Situation in Aurangabad Division. (ii) The Bombay Scarcity Manual (Draft) Bombay 1962. (iii) Scarcity—A Compendium of Government Orders, Government of Maharashtra, 1973. (iv) Report of the Fact Finding Committee for survey of Scarcity Areas, Maharashtra State, 1973, Vol. 1, p. 88. (v) Report of the Finance Commission (sixth), Government of India, New Delhi, 1973.

TABLE 1

<i>Category</i>	<i>Benefits</i>	<i>Type of Projects</i>
A. Irrigation Works	Increasing agricultural production. Reducing drought potential	(i) Major & Medium Irrigation (ii) Minor Irrigation
B. Land Improvement Works	Increasing agricultural production	(iii) Well Irrigation (iv) Soil Conservation (v) Afforestation
C. Other Works	Improving transport infrastructure	(vi) Metal breaking for road and rail construction (vii) Road Construction.

stabilise agricultural production at an appreciably higher level primarily through the rapid expansion of irrigation facilities. Accordingly as much as 25 per cent of total plan outlay has been demarcated for irrigation.<sup>3</sup> In Aurangabad District itself an overall growth rate of 7 per cent per annum is sought to be achieved through a 20 per cent to 25 per cent increase in agricultural output. And this expansion of agricultural output is expected to follow, in the main, from a doubling of irrigated acreage from 7.8 per cent of cultivated area to as much as 16 per cent.<sup>4</sup> Secondly, in a highly drought prone district like Aurangabad the only long term remedy for preventing the frequent collapse of agricultural operations is again irrigation.

The land improvement works of category B are also productive in the sense that they improve or conserve the productivity of the soil. Moreover, a large volume of these works were already being planned for in the normal development plan of the district<sup>4</sup> and, being widely dispersed, these works could be conveniently located for relief employment without much population migration. However, it is evident that compared to the high productivity of irrigation works, land improvement works would take second place.

Finally there are the works of category C such as metal breaking and road building. While these need not be completely unproductive<sup>5</sup> as is popularly believed, it is clear that their productivity is at best limited. Thus it is

<sup>3</sup> See Draft Outline of 5th Five Year Plan, Maharashtra State.

<sup>4</sup> See Fifth Five Year Plan (1974-75 to 1978-79). District Planning Board, Aurangabad District, 1973 (henceforth referred to as District Plan).

<sup>5</sup> See W. Ladejinsky, "Drought in Maharashtra, Not in a Hundred Years," *Economic & Political Weekly*, Vol. VIII, No. 7.

often uneconomical to transport the broken metal to construction sites while roads with only the earth work done under a scarcity programme get washed away with the first monsoon. Consequently these works come lowest in a broad 'productivity' ordering of the different types of projects in DREP.

So far we have tried to order projects under DREP according to their productivity. However, while this was the primary objective laid down by the government for determining the allocation of resources, this was not the only objective. A second important objective which has to be considered is cost efficiency.<sup>6</sup>

TABLE 2

<i>Project</i>	<i>Cost Coefficient (<math>c_j</math>)</i>	<i>Rank</i>
Major & Medium Irrigation	47.0	6
Minor Irrigation	57.0	7
Well Irrigation, etc.	39.8	3
Soil Conservation	33.8	2
Afforestation	20.0	1
Metal Breaking	40.6	4
Road Construction	41.1	5

The Government's concern for cost minimisation stemmed from the inflationary situation in which the drought occurred and to which it gave further impetus. During the period of drought under consideration, Maharashtra State alone spent as much as Rs.140 crores to provide relief employment to the displaced agricultural community of the order of as much as fifty lakh persons per day during the peak period. Most of this wage employment, even if used in productive channels, could at best be expected to lead to higher output on a future date. But the wages paid would be immediately used to purchase consumer goods, especially grain, in a period when the market was already experiencing shortages. The inflationary implications of this situation and the consequent concern of the government to hold down costs in DREP are obvious. Cost minimisation has accordingly been adopted as the second important objective in developing our programme evaluation criteria.

Operationally, the cost efficiency objective would require that a project  $x$  be preferred to another project  $y$ , other things being equal, if the cost of a certain volume of employment be less in  $x$  than in  $y$ . In order to apply this

<sup>6</sup> See (a) Scarcity Manual, p. 4; (b) Scarcity—A Compendium of Government Orders, p. 20, etc.



rule the different projects under DREP would have to be ranked according to the cost per unit of employment in each project. This cost coefficient of a project can be easily worked out by applying the formula

$$c_j = \frac{\sum_{t=1}^{\tau} C_{tj}}{\sum_{t=1}^{\tau} W_{tj}} \quad \begin{matrix} j=1 \dots\dots\dots 7 \\ t=1 \dots\dots\dots 12 \end{matrix}$$

where  $c_j$  is the cost per unit of employment in project  $j$ ;  $C_{tj}$  is the expenditure on  $j$ th project in  $t$ th month and  $W_{tj}$  is the number of manmonths of employment in  $j$ th project in  $t$ th month. The cost coefficients and the corresponding ranks of the different types of projects in DREP have been given in Table 2.

Both the productivity objective and the cost efficiency objective have to be incorporated into the programme evaluation criteria. But by comparing the earlier productivity ordering of projects with the cost efficiency ranking of Table 2 it will be seen that the two objectives and the project rankings which they generate are in conflict.

Projects with multiple objectives can be ranked in a cost benefit model by applying a quantitative weighting scheme. In the present case, however, there being only two major objectives, we can employ a more simple lexicographic device where the broad groups are first classified according to the more important 'productivity' criteria and then projects within each category are ranked by their respective cost coefficients. In this way, the two criteria are combined into a single criterion for generating one consistent ranking. This simple lexicographic ranking system has been demonstrated in Diagram 1.

The ranking generated through the above procedure is as follows:

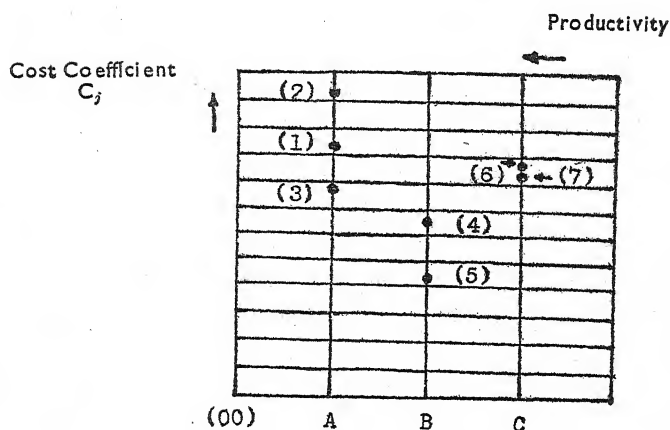
- 1st : Well Irrigation
- 2nd : Major and Medium Irrigation
- 3rd : Minor Irrigation
- 4th : Afforestation
- 5th : Soil Conservation
- 6th : Metal Breaking
- 7th : Road Building

This ranking of different types of projects under DREP can now serve as the programme evaluation criterion for analysing to what extent the planning and execution of DREP was consistent with the objectives which government had laid down for the programme. We shall also use this criterion to measure the impact of an explicit relief planning exercise on the efficient implementation of the programme.



## DIAGRAM I

## LEXICOGRAPHIC RANKING OF PROJECT



## KEY:

1. Major and Medium Irrigation
2. Minor Irrigation
3. Well Irrigation
4. Soil Conservation
5. Afforestation
6. Road Construction
7. Metal Breaking

Rank increases towards origin along both areas.

In effect what our programme evaluation criterion provides is a reconciliation of the inconsistency between the traditional view on famine relief which is to ensure work at a low cost per unit of employment with the recent thinking of, for example, the Sixth Finance Commission which lays stress on utilisation of relief expenditure to complete plan schemes. The former is an attempt to hold down short run costs and maximise employment with limited concern for the development implications of the resource diversions. In contrast the recent thinking is more concerned about the long run developmental cost of such resource diversion and therefore lays stress on utilising these resources for plan schemes. As Rangaswami has recently pointed out,<sup>7</sup> this could imply much smaller numbers on relief for a given amount of funds if the cost per unit of employment is higher on the developmental plan schemes. Secondly, major developmental schemes may not be available in the affected regions. On this ground, Rangaswami has concluded that the integration of 'plan works' with 'destitute relief works' is questionable and that

<sup>7</sup> A. Rangaswami, *op. cit.*

governmental action following the Finance Commission recommendation is based on false assumptions.

As it happens the tight resource situation leaves no choice but to try and integrate 'plan work' and 'destitute relief works'. Secondly the ranking developed by us takes care of the objections to 'plan works' for relief.

Our lexicographic ranking identifies developmental projects or 'plan works' such as well irrigation, which at the same time involve no higher cost per unit of employment than the unproductive 'destitute relief works', as the ones to be given highest priority and spells out a complete ranking of priorities between projects giving weightage to both the long term developmental objective as well as the short term relief objective.

This strategy resolves the conflict between the traditional approach to drought relief and the new thinking on this question—a conflict which Rangaswami seems to find irreconcilable.

## 2. SUBOPTIMALITY OF THE SCARCITY PLAN

The principal instrument of policy that needs to be considered in an analysis of the consistency between stated goals and the operational plan for DREP is the pattern of resource deployment between different projects under the programme. Since the programme evaluation criterion which we have developed above is precisely a priority ranking of the different projects in terms of the objectives of DREP, a comparison of the planned pattern of resource deployment with the above ranking provides a direct and simple test of the optimality or suboptimality of the Scarcity Plan.<sup>8</sup>

The Scarcity Plan, which was ready only by January 1973, was operational for the second half of the agricultural year July 1972 to June 1973, though a further three months was included as a tapering off period for the relief operations. For this paper, we have considered only the core period of the plan or the first six months from January 1973 to June 1973 since this is the period which falls within the agricultural year July 1972 to June 1973. The agricultural year 1972-73 was taken as the reference period for purposes of collection of primary data regarding the actual execution of DREP.

Unfortunately, specific targets regarding fund deployment, employment generation, etc., for the six months core period of the plan are not available directly in the plan since the plan was hurriedly formulated, after the failure

<sup>8</sup> The Scarcity Plan was a plan of action specifying the allocation of funds, generation of employment, etc., in different types of projects during the relief programme. It is contained in the document 'Plan of Works to Meet the Scarcity Situation in Aurangabad Division'. See B.K. Chougule, *op. cit.*

of the Rabi Crash programme, and no detailed time phasing was spelt out in the plan. These targets have consequently had to be interpolated from the broad framework provided in the plan.

Employment was to be raised, according to the plan, from 2.68 lakh persons at the initial point, *i.e.*, beginning of January 1973, to as much as 5.3 lakh at the end of the core period, *i.e.*, June 1973. By assuming a constant linear pattern of expansion of the form

$$\begin{aligned} N_{tj} &= A_j + B_j (t-6) & j &= 1 \dots\dots 7 \\ B_j &= 1/6 (T_j - A_j) & t &= 7 \dots\dots 12 \end{aligned}$$

where  $N_{tj}$  is average daily employment on  $j$ th project in  $t$ th month,  $T_j$  is the potential peak to be reached by June 1973, and  $A_j$  the initial daily employment on project  $j$  at the end of December 1972 ( $t=6$ ), we have interpolated the monthly employment target for each project as implied in the plan. The parameters  $A_j$  &  $T_j$  are taken from Annexure XVI of the Scarcity Plan document. The interpolated plan employment targets have been reproduced in Table 3 with the twelve work categories suitably redefined to coincide with the seven categories by which primary data on the actual execution of the programme were available.

The total planned expenditure for the six months up to June 1973 was Rs. 500 lakhs. However, the project-wise allocation pattern was not specified for each month and had to be estimated for this core period from the allocation pattern of the total budget of the plan. This was done on the basis of the

$$\begin{aligned} \sum_{t=7}^{12} X_{tj} &= k \sum_{t=7}^{15} X_{tj} \\ k &= \frac{\sum_{t=7}^{12} \sum_{j=1}^7 X_{tj}}{\sum_{t=7}^{15} \sum_{j=1}^7 X_{tj}} \end{aligned}$$

formula where  $X_{tj}$  is the estimate of planned on  $j$ th project in the  $t$ th month. The estimated allocation pattern has been reproduced in Table 4 col. 3. Table 4 which brings together the planned employment and expenditure pattern may be taken to represent the basic profile of the Scarcity Plan.

Comparing this with the programme evaluation criterion developed earlier we find the plan inadequate in several respects.

To begin with we find that the cost coefficients of employment in the projects (Table 4 col. 4) implied in the allocation of employment and expenditure between different projects in the plan are quite unrealistic compared to the actual cost coefficients which have been reproduced in Table 2. Not only are they unrealistic in absolute terms but even in relative terms

TABLE 3  
EMPLOYMENT PROJECTIONS OF SCARCITY PLAN

(Figures in thousand)

Type of Relief Work	A	B	$N_7$	$N_8$	$N_9$	$N_{10}$	$N_{11}$	$N_{12}$	$\sum_{t=7}^{12} N_t$
1. Major & Medium Irrigation	2	0.8	2.8	3.6	4.4	5.2	6.0	6.8	28.8
2. Minor Irrigation	1	3.2	4.2	7.4	10.6	13.8	17.0	20.2	73.2
3. Well Irrigation, etc.	17	5.5	22.5	28.0	33.5	39.0	44.5	50.0	217.5
4. Soil Conservation, etc.	12	10.2	22.2	32.4	42.6	52.8	63.0	73.2	286.2
5. Afforestation	0	0.4	0.4	0.8	1.2	1.6	2.0	2.4	8.4
6. Metal Breaking	37	3.8	40.8	44.6	48.4	52.2	56.0	59.8	301.8
7. Road Building	39	1.8	40.8	42.6	44.4	46.2	48.0	49.8	271.8
Total	108	24.0	132.0	159.4	185.1	204.0	228.0	225.0	1152.0

SOURCE : B.K. Chougule, *Plan of Works to Meet the Scarcity Situation in Aurangabad Division*, Annexure XVI, p. 39.

- (a) The estimates of the intercept A are derived from the figures for existing labour strength at the end of December 1972, expressed to the nearest thousand.
- (b) The estimates of B correspond to the slope of the assumed employment expansion path.
- (c) The values of  $N_t$ ,  $t = 7 \dots 12$ , correspond to the interpolated employment estimates of each month, January 1973 to June 1973.
- (d) Monthly Employment has been defined here as the average number of labourers attending per day in a given month.

TABLE 4  
SCARCITY PLAN TARGETS

Type of work	Estimate of planned employment (Jan.-June) (000)	Estimate of planned expenditure (Jan.-June) (000)	Estimated cost- coefficient of Employment (Scarcity Plan)
(1)	(2)	(3)	(4)
1. Major & Medium Irriga- tion	29 (2.4)	1420 (2.7)	49.0
2. Minor Irrigation	73 (6.1)	3409 (6.5)	46.7
3. Well Irrigation, etc.	218 (18.4)	14773 (28.3)	67.8
4. Soil Conservation, etc.	286 (24.1)	16364 (31.3)	57.2
5. Afforestation	8 (0.7)	682 (1.3)	85.3
6. Metal Breaking	302 (25.4)	11364 (21.7)	37.6
7. Road Construction	272 (22.8)	4261 (8.2)	15.7

SOURCE : B.K. Chougule, *Scarcity Plan*, p. 39, Annexure XVI.

(a) Column (4) gives the estimated cost per man-month of employment, i.e., Col.(3) ÷ Col.(2)

(b) Figures in parentheses give percentage to column total.

(c) Column (2) is reproduced from Table 1. It gives the values of  $\sum_{t=7}^{12} N_{jt}$  for each  $j$ ,  $j=1, \dots, 7$ .

the ordering between the cost per unit of employment in different projects is distorted. Thus 'afforestation', which should have the lowest cost of employment has the highest according to the plan. The cost of employment in road construction implied in the plan turns out to be less than half of the actual cost and is similarly underestimated for minor irrigation while the estimates for well irrigation and soil conservation are far too high. This wide disparity between the actual cost coefficients and those implied in the plan indicate that the employment targets were not matched with the financial allocation pattern, i.e., one part of the plan has no consistent relationship with the other.

A second inadequacy far more serious than the internal inconsistency of the plan discussed above, is to be found in the priorities reflected by the pattern of resource allocation in the plan. According to the criterion set

up earlier, an optimal plan would have deployed the highest quantum of resources to the most productive irrigation projects of category A; within this the highest share will go to well irrigation as being the most economical. A smaller quantum would have been deployed to the less productive land developing works of category B and the smallest share would have gone to the unproductive works of category C. Instead of this, the Scarcity Plan allocated more or less equal shares to each category, A gaining marginally at the cost of C. Comparing the allocation between individual projects, we find that a middle ranking project like soil conservation got as much as 30 per cent of the total outlay while a bottom ranking project like metal breaking got a share similar to that of the top ranking project, well irrigation.

A question now arises, why was the allocation of resources envisaged in the Scarcity Plan suboptimal? Was it purely an *ad hoc* pattern of fund development? It would seem that this was not the case. The programme evaluation pattern developed by us sets up allocation priorities on the basis of a combination of two objectives—productivity and cost efficiency. While being suboptimal in comparison with this combined priority ranking, the planned allocation pattern seems to have followed the single objective of cost efficiency fairly closely. If we leave out of consideration major & medium irrigation works and afforestation, both of which have severely limited physical possibilities of being undertaken at short notice during a drought, then we find that the planned allocation pattern is completely consistent with the priority ranking of different projects by their cost coefficients only which has been set out earlier in Table 2.

In other words, in their planning of the drought relief operations, administrators in Aurangabad district seem to have opted for the traditional formula of providing 'destitute relief works' for ensuring employment at low cost per unit rather than the modern strategy outlined in various government documents, especially the Report of the Sixth Finance Commission. As we have seen earlier, the modern strategy lays more stress on minimising the long term costs rather than the immediate cost in the sense that it tries to prevent the deviation of resources from developmental tasks by converting the 'plan works' themselves into relief works. Of course as we have demonstrated in our formulation of the programme evaluation criterion, the two strategies can be made consistent and we can minimise both the immediate unit employment cost as well as the long range developmental cost of relief employment programmes by following a simple lexicographic system of ranking priorities.

### 3. IMPACT OF RELIEF PLANNING

Our evaluation of the Scarcity Plan in the preceding section revealed that in terms of the programme evaluation criterion set up earlier the resource



allocation pattern of the plan was suboptimal, *i.e.*, it was not optimal from the point of view of meeting the objectives explicitly laid down by the government itself for DREP. This still leaves open the question of what impact the plan, its shortcomings notwithstanding, had on the actual execution of the programme. From the methodological point of view we have a very convenient procedure for measuring the impact. The reference period of our analysis is the full agricultural year, July 1972 to June 1973. Of this period exactly half the period, *i.e.*, the later six months, January 1973 to June 1973 was covered by the Scarcity Plan. Thus by comparing the unplanned first half of the year, which we have called Period I, with the planned second half of the year, which we have called Period II, we can get a fairly good idea of the impact of the plan on the actual performance of the programme. At the same time, we can carry out our evaluation of programme execution in terms of the programme evaluation criterion formulated earlier.

The time path of resource allocation between different types of projects has been displayed in Diagram 2. Comparing individual projects we find that a middle ranking project like soil conservation dominated all the others throughout the entire period. Still worse, relatively unproductive projects like metal breaking and road building seem to have got larger outlays than the different types of productive irrigation works—even a top ranking project like well irrigation—during a large part of the year.

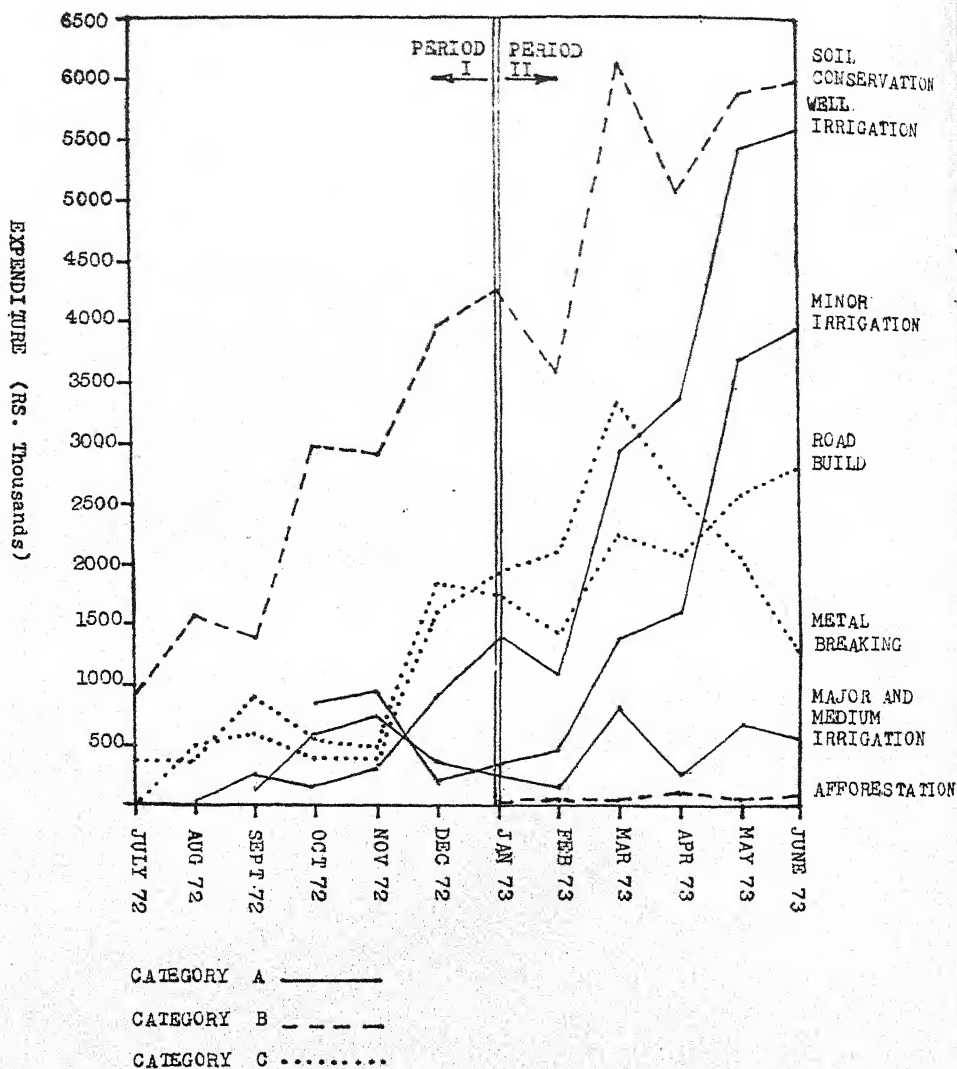
The net consequence of this allocation pattern was that for the year as a whole land improvement works, mainly soil conservation, got the bulk of the total outlay. This amounted to approximately Rs. 4.5 crores or almost 40 per cent of total outlay. Meanwhile, the most productive works like well irrigation, etc., of category A and the most unproductive works of category C like metal breaking and road construction got more or less equal shares amounting to approximately Rs. 3.6 crores and Rs. 3.4 crores respectively. See Table 5, page 881.

The picture compared in terms of manpower allocation is worse. The middle ranking land improvement works absorbed almost half of the total man hours of employment generated under DREP while the top ranking productive works again equally shared the remainder with the unproductive works, category A and category C getting 8.1 lakh man months and 8.3 lakh man months respectively. See Table 6, page 882.

Thus the actual execution of DREP also turns out to be highly inoptimal when evaluated in terms of our programme evaluation criterion. It is not easy to measure the physical aspects of the programme. However, if we look at this aspect in addition to the financial and manpower aspects, the programme would probably turn out to be even more inefficient. It is generally believed



DIAGRAM 2  
TIME PATH OF FUND DEPLOYMENT



that the quality of work done would not stand up to rigorous technical standards and in fact, data are available to indicate that a very large number of works were taken up but never completed. This seems to be particularly true for the different types of irrigation works under category A. See Table 7, page 883.

For purposes of measuring the impact of the plan, however, it is not enough to review the year as a whole. As we noted earlier, we can

TABLE 5

## PLANNED AND ACTUAL EXPENDITURE PATTERN

Type of work	Whole Year (July 72—June 73)	Period I (July 72—Dec. 72)		Period II (Jan. 73—June 73)		Scarcity Plan (Jan. 72—June 73)	
							(Rs. in thousands)
1. Major & Medium Irrigation	3190 (2.8)	483 (2.1)	2707 (3.0)	1420 (2.7)			
2. Minor Irrigation	11864 (10.3)	394 (1.7)	11470 (12.6)	3409 (6.5)			
3. Well Irrigation, etc.	21300 (18.5)	1544 (6.5)	19756 (21.7)	14773 (28.3)			
A: Total (1) + (2) + (3)	36354 (31.6)	2421 (10.3)	33934 (37.2)	19602 (37.5)			
4. Soil Conservation	44493 (38.7)	13499 (57.0)	30994 (34.0)	16364 (31.3)			
5. Afforestation	220 (0.2)	—	220 (0.2)	682 (1.3)			
B: Total (4) + (5)	44713 (38.9)	13499 (57.0)	31215 (34.2)	17046 (32.6)			
6. Metal Breaking	17275 (15.0)	4410 (18.6)	12865 (14.1)	4261 (8.2)			
7. Road Construction	16553 (14.4)	3342 (14.1)	13211 (14.5)	11304 (21.7)			
C: Total (6) + (7)	33828 (29.4)	7752 (32.7)	26076 (28.6)	15625 (29.9)			
Total: A + B + C	114895 (100)	23672 (100)	91225 (100)	52273 (100)			

Figures in parentheses give percentage to column totals.

TABLE 6  
PLANNED AND ACTUAL EMPLOYMENT PATTERN

Type of Work	[Man months (000)]			
	Whole Year (July 72—June 73)	Period I (July 72—Dec. 72)	Period II (Jan. 73—June 73)	Scarcity Plan (Jan. 73—June 73)
1. Major & Medium Irrigation	66 (2.0)	8 (1.0)	58 (2.7)	29 (2.4)
2. Minor Irrigation	208 (7.0)	8 (1.0)	200 (9.2)	73 (6.1)
3. Well Irrigation, etc.	535 (18.0)	33 (4.1)	502 (23.2)	218 (18.4)
A: Total (1)+(2)+(3)	810 (27.3)	49 (6.1)	761 (35.1)	320 (26.9)
4. Soil Conservation	1315 (44.3)	499 (62.4)	816 (37.7)	286 (24.1)
5. Afforestation	11 (0.0)	—	11 (0.1)	8 (0.7)
B: Total (4)+(5)	1325 (44.7)	499 (62.4)	828 (38.2)	294 (24.7)
6. Metal Breaking	420 (14.2)	140 (17.5)	280 (12.9)	272 (22.8)
7. Road Construction	408 (13.8)	112 (14.0)	296 (13.7)	302 (25.4)
C: Total (6)+(7)	829 (28.0)	252 (31.5)	577 (26.6)	574 (48.3)
Total A+B+C	2966 (100)	800 (100)	2166 (100)	1188 (100)

Figures in parentheses give percentage to column totals.

TABLE 7  
CUMULATIVE PHYSICAL ACHIEVEMENT ON SCARCITY WORKS  
JANUARY 1971 TO 1973

Category	S.No.	Work Type	Number of Pro- ject Taken Up	Physical Achieve- ment
Category A	1.	1.1 Canals excavated	21	16 Projects comple- ted, 51.30 Km ex- cavated
		1.2 Canals repaired	24	24 Projects completed
	2.	2.1 Irrigation Tanks	59	1 completed
		2.2 Percolation Tanks	158	3 completed
		2.3 Village Ponds	149	93 completed
		2.4 Desilting of Tanks	184	184 completed
	3.	3.1 Community Wells	4313	1105 struck water
		3.2 Tubewells drilled	37	16 Successful & fixed with pumps.
		3.3 Old Wells deep- ened	901	277 Wells struck water
		3.4 Public Wells de- silted	—	—
		3.5 Private Wells desilted	24	24 completed
Category B	4.	4.1 Soil Conserva- tion (Bunding)	1007	286, 450 Hectares co- vered
		4.2 Ayacut develop- ment	69	4912.61 SUD covered
		4.3 Nala Bunding	96	85 completed
	5.	5.1 Afforestation	39	120,000 bunches dug to cover 725 Hectares
Category C	6.	6.1 Metal Breaking	381	929033 cum. metal collected
	7.	7.1 Roads	547	4181 Km. completed
		7.2 Trenches	21	25,706 trenches dug

SOURCE : S. Jambunathan, *Scarcity in Aurangabad District* (mimeographed). Note presented at Scarcity Meeting, Commissioner's Office, Aurangabad on 6th September, 1973. State-  
ment B.

conveniently divide the year into two equal halves, before January 1973 when there was no plan and after January 1973 when there was a plan, and compare the situation in Period I with that in Period II.

As even a cursory look at Diagram 2 reveals, significant changes seem to have occurred in Period II. The outlay on high priority projects like well irrigation and minor irrigation increased several fold, the former tending to overtake the outlay on soil conservation. In contrast, the unproductive projects began tapering off, as in the case of road building, or even declining sharply as in the case of metal breaking.

Comparing the two periods in quantitative terms, we find that the share of the top category of productive irrigation works increased from about ten per cent of total outlay to as much as thirty seven per cent, its share of man-hours employed accordingly going up from about six per cent to about thirty-five per cent. Simultaneously, the share of land improving works of category B declined from fifty seven per cent of total outlay to about thirty four per cent, resulting in a corresponding fall in its share of manhours absorbed from about sixty two per cent to thirty eight per cent. The share of unproductive works of category C also declined, though not so dramatically.

It would seem therefore that there was a major shift in the ranking of priorities in the relief employment programme after the Scarcity Plan became operational. It is not being implied that the new pattern of resource allocation under the plan was optimal. In fact, this is not even expected since the plan itself was not an optimal one as we saw earlier. But certainly in spite of its suboptimality, the plan had a sharp impact on the execution of the programme so that its resource allocation pattern was far more rational under the plan than prior to it. It was more rational in the sense that its priorities were much more consistent with the priorities laid out in our programme evaluation criterion, the latter being nothing but an operative expression of objectives which government itself had spelt out for the programme.

#### 4. SOME POLICY IMPLICATIONS

Our foregoing evaluation of the planning and execution of relief programmes, based on a micro-level study in Maharashtra during the drought of 1972-73, throws up several important implications for future relief policy in the country. One need hardly emphasise the immediate relevance and urgency of these issues during the next few months of the current agriculture year in view of the prevailing scarcity situation in various parts of Gujarat, Orissa, West Bengal and some other States.

If our own evidence from last years' drought is any thing to go by, the really difficult months of this year are yet to come. It is only after the end

of the rabi crop, from around the beginning of March, that the mass of the peasantry and landless labourers lose all their sources of survival in a year of drought. So long as the rabi season is on at least large numbers of the rural poor have some source of eking out their measly livelihood. After that there is nothing and the whole burden of survival is thrust upon the relief operations of government. According to our data indicates a sudden sharp rise in the level of operations, the money deployed and the number of persons on relief, from around the beginning of March (see Diagram 2). Rangaswami, underlining the same opinion, quotes an estimate for Gujarat state where the current requirement of about 3 lakh mandays of relief work per day is likely to go up to about 10 lakh mandays by March-April.<sup>9</sup> Thus it is around March that the real crisis will begin and the relief administrators will be put to their severest test. There is just enough time now to take note of our earlier mistakes and face the crisis this time with a little more experience than we had the last time.

The first important policy implication of this paper is that contrary to Rangaswami's implication<sup>10</sup> 'plan works' and 'destitute relief works' can be integrated. In any case we have no choice. Particularly in view of the general crisis now obtaining in the economy and its severe strain on our limited financial resources, it is just not possible to continue funding a development programme and at the same time fund large scale relief employment schemes separately for several months. Thus at the formal level development expenditure might be temporarily curtailed to meet the relief budget. But as Rangaswami herself has pointed out, in reality what is earmarked as relief assistance to the states would get utilised for development projects, leaving the destitutes to fend for themselves. It is by keeping these realities in view that the Sixth Finance Commission has recommended the linking of development funds with relief funds explicitly. It is not false assumptions but the sheer lack of options which has forced the Finance Commission to its stated position.

By dragging out this problem from under the carpet we can at least raise the question that if funds, under whatever head they are sanctioned, are to be deployed for 'plan work', then is it possible at least to ensure that the 'plan works' themselves provide the necessary relief employment? The answer is in the affirmative as we have shown in this paper. By carefully considering different types of projects in terms of a simple but effective criterion, it is possible to find productive developmental projects such as 'well irrigation', minor irrigation and, lower down the scale, soil conservation which are also ideally suited for relief works. These projects can be widely dispersed so as to be conveniently located in the affected areas themselves. Furthermore, contrary to Rangaswami's expectation, the unit cost of employment is not higher

<sup>9</sup> A. Rangaswami, *op. cit.*

<sup>10</sup> *ibid.*



in these projects than in unproductive ones like metal breaking, so that the numbers employed under the 'plan work' oriented strategy need not be smaller.

A second important policy implication is about the relevance of planning in such relief operations. There has been wide spread scepticism about the relevance, or even the possibility, of planning for a relief operation in a crisis. It so happens that this negative assumption has often led to the unnecessary mismanagement of relief operation. In Maharashtra, to quote Brahme, "scarcity condition and relief works are recognised facts of life. . . . Yet no effort has been made to draw up and keep in readiness adequate number of projects of productive works which could employ the drought affected population meaningfully and help minimise the hardships imposed by failure of rain."<sup>11</sup> And this is not only true of Maharashtra. The Sixth Finance Commission has in its recent report identified the lack of adequate planning as a major factor leading to the large scale misutilisation of funds deployed for relief.

The evidence in this paper confirms this position. It shows that the Scarcity Plan, even though hastily prepared and suffering from several defects, had a very sharp impact on the actual execution of the programme and brought the pattern of resource allocation much closer to an optimal pattern than what had obtained prior to the plan.

Finally, the inadequacies of the plan itself point to the need for a more careful and regular process of contingency planning,<sup>12</sup> independent of whether a drought actually occurs or not, as part of the normal process of agricultural development planning. There again it has to be emphasised that the thinking of the Sixth Finance Commission on this question is fully endorsed by last year's experience in Maharashtra.

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<sup>11</sup> See S. Brahme, "Drought in Maharashtra", *Social Scientist*, Vol. 1, No. 12, July 1973.

<sup>12</sup> For a discussion of the issues involved here see S. Mundle, "Planning & Resource Deployment in Drought Relief Operations (mimeographed), Indian Institute of Public Administration, 1974.



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## BOOK REVIEWS

*Wavell—"Viceroy's Journal"* edited by PENDEREL MOON, Oxford University Press, p. 528, £ 8.

Among the various books which have been written to cover a critical period in India's history, the period from 1939 to 1947 in which crucial steps for the transfer of power were taken, the *Viceroy's Journal* is a refreshing and authoritative addition. The *Journal* covers the period from Lord Wavell's appointment as Viceroy of India in 1943 to what he calls "his dismissal in 1947" and throws an interesting light on some of the hitherto unknown facts of that period.

This review is not concerned with the political events and the equations of the principal actors of that drama; it is not intended to analyse why Churchill had a low opinion of Wavell; why Wavell generally had a dislike of the politicians excepting Azad whom he placed high; why in the Cabinet Mission, Cripps and Pethick Lawrence leaned towards the Congress viewpoint while Wavell's sympathy was with the Muslim League with Alexander as a reluctant neutral yet more appreciative of Wavell's point of view; why again Wavell distrusted Mahatma Gandhi and thought that Mahatma Gandhi's and Jinnah's mutual incompatibility played a large part in the partition of the country; with none of these interesting yet political aspects this review grapples. The *Journal* equally well throws interesting light on the administrative processes at the top-most level and it is some of these facets which are intended to be examined.

It is quite clear from reading the *Journal* that certain features of administration are present at all times and at all levels. Firstly is the question of pressures of routine papers and interviews which bedevil all nuclei of authority. Lord Wavell as Viceroy of India had no dearth of aides and assistants to help him; yet in his entry of 10th December 1943 he laments :

"There is too much routine work, interviews, etc., to give the Viceroy time for constructive thinking or relaxation which is essential to a lazy man like myself. Today was an awful day; interviews, conferences, papers, visitors to all meetings, etc., lasting from 10 a.m. to 10 p.m., and my only relaxation was a ride from 7.30 to 8.30 a.m. What a life. I have been struggling for the last 48 hours to find even a short space to compose the speech I have got to make at Calcutta."

We all as administrators know that when we return from tour it becomes difficult to catch up with the papers. Lord Wavell had no different experience. On December 23, 1943 he writes :

"Since I returned from tour the spate of papers has been unending, and I have had not a moment for constructive thinking, for any work outside the ordinary routine, private correspondence or recreation. In fact the whole pace of these first two months of my Viceroyalty has

been much too fast, and I see little prospect of its slowing down."

The second important feature of administrative process which is evident from the Journal is the importance and inescapability of sizable staff support to men in authority. What appear to the laymen as decisions of individuals are, as a matter of fact, the resultants of convergence of many minds. The role of the personal staff is crucial in such deliberations and it is difficult to anticipate what handicaps Lord Wavell would have faced if men like Sir Evan Jenkins or Sir George Abell were not available to lend staff support. The Journal is full of encomiums for these silent, back seat wizards.

The third feature of administration which is revealed by this book is the importance of committee work for crystallisation of decisions and the phenomenal ignorance of committee members about the tasks assigned to them. Parkinson's 'commitology' is in full play and we feel amused to find that even in the highest committees of the Government of Great Britain, members would turn up without reading papers and instead of pursuing common objectives, would try to press such points of view as may be in consonance with their individual spheres of work. On December 11, 1946 Lord Wavell writes :

"A meeting at 10 Downing Street lasted two hours and discussed the breakdown plan in a rather desultory way. Those present were Prime Minister, Secretary of State, Cripps, Alexander, Addison, Ellen Wilkinson, Listowel, Henderson. It was on the whole useful, I think, for educating some of the Cabinet. Addison for example had no idea that the Sikhs lived in the

Punjab, and Ellen Wilkinson had no idea that we only had some 500 British officers living in India."

In a pithy sentence Lord Wavell passes his judgment on the India Committee in his entry on December 20, 1946 :

"The India Committee as a whole do not greatly impress me. Secretary of State carries no weight. Henderson is futile, so is Listowel, I think. Ellen Wilkinson does not really understand it at all, and Alexander does not like it. Cripps is of course the directing brain, and I repeat I do not trust Cripps."

Administrators at all levels are familiar with their proposals being turned down by the higher authority, howsoever meticulous and hard-working they might have been in formulating them. Lord Wavell was no exception to these shocks. On 9th June 1944 he writes :

"Cabinet has turned down my proposal to appoint an Indian as \* Finance Member. I gather from Secretary of State that John Anderson and Winston torpedoed it."

Again on 13th January 1944 Lord Wavell states :

"The War Cabinet has turned down my proposal of Section 93 in Bengal; they say Casey must be given a chance to press Ministry into adequate action. I do not think they are capable of taking it, or of restoring confidence and reasonable honesty into the province. I cabled Secretary of State pointing out that Cabinet had disregarded my advice twice and that I hoped they would not do so again on the demand of imports."

And finally the secretiveness which goes with the administrative

processes at all levels and is considered a necessary concomitant whether the circumstances justify it or not. It is interesting to find from the Journal that while in December 1946 the India Committee of the British Cabinet was holding its mammoth sessions with the Viceroy examining various aspects of his breakdown plan, Mr. Attlee had already asked Lord Mountbatten to take over as Viceroy of India. The Cabinet did not feel any need of taking Lord Wavell into confidence and this lack of candour is truly astonishing and subsequently cut Lord Wavell to quick. It is, therefore, not surprising that like the best among us he was considerably peeved when the decision was communicated to him. In his letter to the Prime Minister on 5th of February 1947 he uses a language which in retrospect might have appeared garrulous to him also :

"I think, however, that I am entitled to observe that so summary a dismissal of British representative in India is hardly in keeping with the dignity of the appointment. It has been usual to give the retiring Viceroy six months notice of his replacement. I may recall to you that I wrote to you six months ago, at the beginning of August last, suggesting that you might now wish to replace the soldier by a politician, but you gave no indication of any desire to make a change. Whether my conduct of office since then deserved dismissal at a few weeks' notice is for others to judge."

The Journal in addition throws interesting light on the personality

of Lord Wavell: his capacity to write political scenerios and parody; his love for poetry and command of Latin; his down to earth judgments of men; his ingrained honesty and sincerity of purpose reinforced by an Army background; his general dislike of politicians; his excessive concern for protocol (when he objects to Cripps, etc., rushing to bring a glass of water for Mahatma Gandhi); and his forthright style of writing to the higher authority. One wonders how many Field Officers could use the following language in writing to Government which appoints them : (Wavell's letter to Secretary of State for India)—

"Cabinet's lack of imagination in dealing with India is sometimes astonishing. They turned down my recommendations for appointment of an Indian Finance Member on the plea that they must appoint a man of "acknowledged outstanding qualifications". Person now proposed is certainly not this. Surely you cannot suppose that selection of a young and almost unknown Canadian, whose name does not appear in any book of reference and who has no experience of India, will be easy to defend. Your colleagues must stop trying to have everything both ways."

To all those who retain an abiding interest in the inner confabulations of the period of transfer of power, Wavell's Viceroy's Journal is a must, and the reading would prove to be extremely rewarding from the point of view of information as well as recreation.

— M. K. CHATURVEDI

*Indian Administration* by SHRIRAM MAHESHWARI, Second Edition, New Delhi, Orient Longman Ltd., 1974, p. 448, Rs. 40.

The second edition of this well-known text in Indian Administration, by one of the leading authorities on

the subject, is an enlarged and vastly improved version of the first edition, which was published in 1960. Almost

all of the material in the first edition—even including some that perhaps should have been replaced by more up-to-date information—has been preserved, but a great many entirely new chapters have been added, thus giving the book greater substance and far more analytical and evaluative significance.

There are new chapters on four Central ministries: Home Affairs, Finance, Defence, and External Affairs; on such technical aspects as "O & M in Central Government", "Department of Personnel and Administrative Reforms", and "In-Service Training for Civil Servants"; and on such significant broad themes as "Minister-Secretary Relationship in India", "Reform of the Civil Service", "Administrative Corruption", "Administrative Reforms" (with special reference to the recommendations of the Administrative Reforms Commission), and "Union-State Relationship: Consultation Through Conferences".

The discussion of the All-India Services, and of the Central Civil Services, has been expanded, and greatly improved. In addition to the previous descriptive treatment of the All-India Services, the second edition contains an interesting account of their historical development and of the arguments for and against their retention. They are an elite and surprisingly small group, numbering only about 4,000 in a total cadre of 7.8 million civil servants at all levels of administration. Contrary to the recommendation of the Administrative Reforms Commission, Dr. Maheshwari seems to favour their abolition. "Given the present conditions of the country", he writes, "the disappearance of the all India services may not cause any significant damage to the totality of the civil service. . . . It is the changes achieved in the political environment in which these services

operate that now make it necessary to challenge their continued primacy." He is, however, clearly not sympathetic with the concept of a "committed" bureaucracy, which he regards as "fraught with dangerous implications and consequences". Instead he adheres to the time-honoured concept of political neutrality, "the hall-mark of our civil service", which "does not postulate a lack of commitment to the basic philosophy and injunctions of the country's constitution."

For many years Dr. Maheshwari has been involved in in-service training programmes for civil servants. As would be expected, his chapter on "In-Service Training for Civil-Servants" is particularly insightful and valuable. He is well aware of the "inhibiting factors" in the way of satisfactory training programmes in India, including a lack of real interest and commitment on the part of top political leaders and senior civil servants, the psychological attitudes of civil servants and their lack of motivation and unwillingness to take training programmes seriously, poor methods of selection—and, he might have added, often rather sterile and irrelevant training programmes. In spite of the continued allure of training abroad—"a training programme abroad, preferably in the West, is easy enough to cause anxious throbbings in most bureaucratic hearts and to launch the proverbial thousand ships in the Indian bureaucracy"—he is a firm believer in the need to concentrate on the development of effective training programmes in India. This will call for a considerable improvement in the quality and character of these programmes, for greater dedication and industry on the part of civil servants, and, above all, for a long-time commitment to training as a concept of personnel development on the part of the central and state governments.



Less than 70 of the 443 pages of text deal with state and local government and administration, and very few changes have been made in this part of the first edition. This section of the book is sketchy and almost wholly descriptive. The hierarchy of officials at state, divisional, district, and local levels is outlined, and the functions of state secretariats, boards of revenue, divisional commissioners, and district collectors are briefly described; but the actual, as distinguished from the formal, inter-relationships among these agencies and officers are not clearly brought out and the treatment of such important subjects as Panchayati Raj and municipal government and administration is quite inadequate. The latter subject, however, is dealt with at some length in Dr. Maheshwari's volume on *Local Government in India*.

This second edition is much better than the first, not only because it contains a great deal of new material, but because it is set in a broader framework and presents much more analysis and constructive evaluation. Dr. Maheshwari is thoroughly familiar with the details of Indian public administration. He is also a capable political scientist, and a concerned citizen of India. He believes that "the country's bureaucracy suffers from lack of professionalism and achievement-orientation, not lack of competence", and that it "must set out to

professionalize and humanize itself". He feels that "public administration in the country is in a dismal state". While he makes numerous suggestions for its improvement, he is fully aware that "any significant reform of public administration depends upon the demands made, and support given, by the country's polity." Hence he argues that "political reform must synchronise with, if not precede, administrative reform". Indeed, he points out, "reform in public administration is bound to remain only marginally effective without reform of the political system of the land, and reform in both these spheres is not much possible without simultaneous reform in the country's economic system as well. What is called for is determination and vision and total effort on the part of the society. This, surely, is a most challenging business."

This edition of *Indian Administration* contains both basic information and suggestive comments and interpretations. For details regarding many of the subjects that are discussed rather briefly in this volume, one could hardly do better than to consult Dr. Maheshwari's other works, notably *The Evolution of Indian Administration*, *Local Government in India*, *The Administrative Reforms Commission*, and *Government Through Consultation*.

—NORMAN D. PALMER

*Portraits of Thai Politics* by JAYANTA K. RAY, New Delhi, Orient Longman Ltd., 1972, p. 225, Rs. 20.

In "Portraits" of Thai Politics" Professor Ray has edited and compiled the biographical notes of Nai Thawee Bunyakehe, Mom Rajawongse Seni Pramoj and Lady Laila Pibul Songgram.

He writes in his preface that Nai Thawee and Mom Rajawongse held

the highest administrative political offices including that of Prime Minister but one must not ignore the fact that both of these persons held the office of Prime Minister for only few months. It sounds indeed flattering to say that they played a significant role in the political process of Thailand.

Perhaps it would have been more desirable to examine and analyze the private papers of Field Marshall Pibul Songgram in great detail apart from recording Lady Pibul's memoirs. F. M. Pibul held the office of Prime Minister from 1938 to 1944 and 1948 to 1957. Perhaps a longer stay in Thailand would have enabled Dr. Ray to add to the quality of the present work.

Prof. Ray's introduction to the book seems to be very interesting and he rightly mentions, supporting La-lad's viewpoint, that Pibu was more a scholar than a military, and as a result of his scholarly attainments he was in a position to influence the military.

The view that Pibul's policy towards Chinese in Thailand was extremist in nature and it affected the interest of the Chinese to a great extent is questioned by the author. He rightly reminds the critics of Pibul that in spite of the power to exterminate or uproot the Chinese like the Jews in Nazi Germany, Pibul never initiated any such policy. It is also true that wherever the Chinese have been in considerable number and economically powerful, they have undermined the importance of indigenous people and this has been one of the problems of the countries in Southeast Asia and Thailand was no exception to it.

Prof. Ray's findings regarding Pridi-Pibul rivalry are quite revealing. He disagrees with Pridi's account that Pibul had deliberately adopted extreme measures to throw out the Chinese from certain avenues of gainful employment. The author agrees with La-lad's view that Pibul was not basically anti-Chinese and he believed in assimilating the Chinese in the Thai body politic. According to the author, the main cause of Pridi-Pibul rivalry was personal ambition. Similarly he finds that Pridi-Seni rivalry was due to former's apprehension of a political challenge from the latter which was showing its signs soon after the Second World War. He rightly deduces that "in all these situations of political rivalry there is a mixture of personal considerations and considerations of principle or policy with the former seemingly predominant." (p. 30, para 3)

Prof. Ray must be commended for taking initiative to write on Southeast Asian issues which have never been seriously attempted by the Indian scholars. In spite of all limitations, memoirs do have their own importance in historical analysis. I am sure Prof. Ray would remove the shortcomings about which he talks in the introduction in due course of time and try to include an analytical account of F. M. Pibul's private papers.

—A. N. KAKKAR

*Nationalism in India* by NIHARRANJAN RAY, Aligarh Muslim University, 1973, Rs. 20.

Niharranjan Ray's *Nationalism in India* provides magnificent reading experience. With effortless ease he moves back and forth in the fascinating vastness of Indian history from 3000 B.C. to the mid-20th century as he focusses on the stresses and strains of Indian nationalism. Social-historical research

frequently degenerates into partisan advocacy of a specific cause. For a researcher this is sometimes the facile alternative to an extraordinarily painstaking work analysing the multidimensional complexities of a social-historical problem. Niharranjan Ray has chosen the harder alternative. His success



in fulfilling the difficult task he sets for himself will be apparent to any historian going through his book.

The tension between Hindus and Muslims constitutes the gravest strain on Indian nationalism. Ray's analysis of the historical roots of this tension may make one feel that at a specific point of time the governors and the governed are so overwhelmed by the deposits of history that they fail to eliminate this tension. One wonders why Hindus could not integrate Muslims in their culture, although they had successfully absorbed Greeks, Romans, Sakas, Parthians, Kushans, Huns, etc. Ray quotes Alberuni to indicate the explanation. Muslim conquerors were too aggressive and destructive to yield to friendliness and accommodation. Towards the end of the 19th century, the British adopted the policy of divide and rule. Muslims led by Syed Ahmed opted for English education and against anti-British agitation. Syed Ahmed and his followers became automatically anti-Hindu, because Hindus were launching agitations against the British. On this point Ray challenges conventional wisdom which characterises Syed Ahmed's efforts as irrational. According to him, the British policy being what it was, Syed Ahmed had no alternative but to play into the hands of the British rulers if he was to promote the interests of upper class Muslims. Yet, as Ray argues, Syed Ahmed did not believe that Hindus and Muslims formed two separate nations. In the early years of the 20th century, Hindu nationalist leaders, in order to rouse the masses against British domination, used songs, slogans, etc., which were Hindu in the broad cultural sense and not in the narrow religious sense. Their motivation was not anti-Muslim. But the use of Hindu rituals, etc.,

in the nationalist cause, alienated the Muslims.

A number of Hindu-Muslim clashes took place over different parts of India during 1870-1900. Neither the Hindu leaders nor the Muslim leaders paid adequate attention to these riots. The exploited sections of Hindus and Muslims lived more or less the same life, while their leaders, belonging mostly to the section of exploiters, succumbed to forces of history and immediate self-interest, and arranged the partition of the sub-continent in 1947.

Ray offers a perceptive analysis of the other dominant stresses on Indian nationalism, i.e., those centring on scheduled castes, scheduled tribes, and rural-urban dichotomy. He strikes at the root of conventional scholarship as he convincingly challenges the use of the terms *caste* and *tribe*. Caste stands for a hierarchical ordering of people with reference to birth or lineage. Western scholars and their Indian followers have unwarrantedly used this term to denote a complex social-economic-religious phenomenon. Ray offers an Indian term — *jati* — to deal with this peculiarly Indian phenomenon. A dispassionate reader may be inclined to accept his arguments for substituting caste by *jati*. He deplores the use of the term *tribe*, which assumes that members of a tribe live in a barbarous or primitive state. This is an incorrect description of tribes in the Indian context. Ray suggests a more appropriate term — *jana* — which has its sanction in Indian literature.

The *jati* system has produced numerous social evils. For two thousand years protestant movements have aimed at its removal. Yet the system has survived till the present day — with substantial

modifications, of course. Ray offers an ingenious explanation for the longevity of the jati system. The system of production sustaining the jati system has endured through centuries; so has the jati system. It has even infected the Indian Muslims, who, according to the 1951 census report, have fifty jati grades. The secular-democratic-socialist transformation of post-1947 India is expected to liquidate the jati system eventually. But, as Ray observes, the adoption of the British innovation of Scheduled Castes by the Constitution of India (once again a submission to historical forces) remains an impediment to the process of liquidation. The same observation applies to the case of Scheduled Tribes. Interested individuals and groups are using the labels of Scheduled Castes and Tribes to further sectarian aspirations. The number of Scheduled Castes and Tribes more than doubled between 1950 and 1956. Dozens of other groups have been agitating

for their inclusion in the Schedules.

Ray treats the rural-urban tension in a highly original fashion. Urban centres grew up as early as the days of the Indus Valley Civilisation. They flourished during the reign of Imperial Mauryas and Guptas, and Indo-Muslim empires—to take a few examples. But they were all swallowed up by the rural environment. The ruins of these urban centres attest to the inability of prevailing economies to sustain those urban concentrations. The situation changed in the British days. In post-1947 India, again, far-reaching changes are taking place. Sometimes, it may appear that the city is penetrating the village. Small industries are being set up in villages. The seemingly inexorable process of history may eventually urbanise the villages and proclaim the triumph of industrial civilisation over the agricultural civilisation.

—JAYANTA KUMAR RAY

*Administration, Politics and Development in India* by C.N. BHALERAO, Bombay, Lalvani Publishing House, 1972, p. 510 (including index), Rs. 35.

The present work aims at, in its editor's words, "bringing together published as well as original research studies on the processes and problems of interaction between administration and politics in India in a developmental perspective". It comprises, in addition to a 15-page introduction written by its editor, 31 articles which have been divided into the following six parts—'Administration in transitional societies', 'Bureaucracy and political development in India', 'Some aspects of the administration in union government', 'Administration and politics in the states', 'District, urban and panchayati raj administration', and 'Some issues in administrative reforms'.

Most papers included in the present volume had been originally published in various journals and books while a few of them are the texts of lectures delivered by their authors. Except one piece which was published in 1971 others had originally appeared between 1961 and 1969. In all, the book contains the writings of no less than 29 authors nearly half of whom are foreign, mostly American, scholars.

It is not quite easy to summarise all the contents of a work containing as it does a sufficiently wide range of writings by a number of authors published over a long stretch of time, each completing his task within his

own framework. What is intended here is to provide a glimpse of what could be considered to be some of the outstanding pieces in this anthology.

In the *Introduction*, the editor of the volume states that developing societies like India's are resolutely committed to modernisation, which he defines as "a process that seeks to rebuild and re-structure the traditional societies with reference to the goals of nation-building and socio-economic and technological progress". This is what other scholars too have been observing for a long time. S. N. Eisenstadt analyses the role of the public bureaucracy in both early and late modernisation. While bureaucracies have been of importance in shaping the frame of differentiated systems as well as in serving as important instruments of political unification and modernisation, they have also stood out as impediments to modernisation. Fred W. Riggs emphasises the political context of development administration, saying that the impact of administrative reforms necessarily varies within considerably wide limits, depending, in the main, upon the political system of the country in question. Lucian W. Pye, in his paper on 'Administration, Politics and Development in New States', dwells, among others, on the process of extension of the nation-state system to all societies—or, the 'new states'. Ferrel Heady cites the following as being broadly indicative of the patterns of administration in developing countries: the design of public administration is imitative rather than indigenous; the bureaucracies are deficient in skilled manpower necessary for developmental programmes; they, furthermore, emphasise orientations that are other than production-directed; the form and reality do not correspond and coalesce (which

Riggs has labelled as 'formalism'); and finally, the bureaucracies in the developing countries happen to enjoy, in practice, an abundance of autonomy in its functioning. As regards the last aspect, the author says: "Colonialism was essentially ruled by bureaucracy with policy guidance from remote sources, and this pattern persists even after the bureaucracy has a new master in the nation. The bureaucracy has a near monopoly on technical expertise, and benefits from the prestige that goes to the professional expert in a society aiming towards industrialization and economic growth. Groups capable of competing for political influence or of imposing close controls over the bureaucracy are few and far between, so that often it is able to move into a partial power vacuum" (pp. 76-7). Asoka Mehta (Administration in the Context of Development and Change) refers to the growing frequency no less than intensity of inter-action in a developing country between the administrative processes on the one hand and the political and social process on the other and it is precisely this which provides the larger context of development in India. He stresses the need for evolving a concept of what he prefers to call 'administrative balances'. "Failures in certain areas or directions will require administrative readjustments to be made all along the line. It is for this reason that I started by saying that even the law and order problem is not something which could be isolated from the general effort in development administration. The law and order problem is itself tied up with the stresses and strains of the development process. I doubt whether we can move forward in other areas without taking into account what happens to the law and order situation. In the economic field we seem to be partially aware of this

problem of balances and are doing something towards overcoming it. I do not know whether we are as yet aware of this problem of administrative balances or whether it is possible to achieve such balances." (pp. 85-6). Iqbal Narain and P. C. Mathur (*Politics and Federalism in India: A Developmental Hypothesis*) discuss the validity and strength of party linkages in the field of union-state relations in India. The paper shows that, contrary to fairly widely shared belief, this relationship does not follow a unilinear course of party linkages. It, on the other hand, argues that the pattern of union-state relations in India resembles multi-variate universe having technoeconomic imperatives of a particular scheme, resource base of the central government, politico-economic viability of the state, its equation with the central government (and it is here that the 'party linkages' may have weight), the state's concern for its development needs, its style of bargaining, etc. Rajni Kothari (*Challenge of the Hustings: From Electoral Manipulation to Policy Performance*) calls for reorientation of the machinery of public administration for the performance of new tasks and to inform it with new concepts of public management and accountability. Stressing that Indian public administration needs a 'revolution in attitudes than in structure', he pleads for the creation of skilled administrative, technocratic and political cadres. The author at the same time warns against the dangers of contracting out crucial decision-making sectors to experts. "In our country at one time this used to be the economist and the statistician with their magic models. Now perhaps, with the disillusionment with economic performance, there is greater awareness of how to control this kind of expert. But there is some evidence to suggest that

there is another breed of experts which speaks perhaps an equally incomprehensible (even if less precise) language but is in fact far more dangerous unless kept in check. This is the 'management expert' who seeks to transfer a highly professionalised and impersonal technique of decision-making from the field of industry (the so-called 'management by objectives') to the field of government. Much of the expertise in this field is based on foreign, mainly American, experience. But the American experience in this very respect should serve us as a warning. This is one country where policy planning and the utilisation of information in the governmental process have considerable vogue but where a large part of political decision-making has been simply contracted out to professional experts and systems analysts. The highly 'objective' orientation of these experts has led to an increasing detachment from values, the growth in power of an impersonal technocracy and a frightening distance between the centres of decision-making and the politically relevant public—including the elected representatives of the people" (pp. 428-29).

Being a compendium of articles written in the sixties, the book has, at places, become slightly out-dated—in the sense that it does not provide an insight into political and administrative developments occurring in the seventies, especially since the famous Congress split of 1971.

As is nearly inevitable in an exercise of this kind, the book suffers from overlapping of discussions no less than gaps in the coverage of topics. The editor has been rather too generous in his selections, with the consequence that the work is characterised by an unevenness of quality. Also, on the same aspect of an issue differing views have been aired, and the editor

has made no attempt to comment on them. This entails a possibility of causing confusion in the minds of the beginners of the subject. These, however, are the pitfalls of most edited work in India, and the present publication does not suffer from any extraordinary handicap in this regard.

The present reviewer has sometimes felt that it would be full of

insight if articles from Indian scholars *alone* are selected for inclusion in a book of readings on a theme like the present one. The second volume could perhaps include papers by foreign scholars specialising on India, the themes, of course, remaining the same. A comparative study of such academic twins is apt to be educative and stimulating.

—SHRIRAM MAHESHWARI

*Management for Development* by VIKRAM A. SARABHAI, Delhi, Vikas.

A great deal has been written on management and in all this it would be an arduous search to find what is worth reading. However, few thinkers in this field have shown the broad perspective and deep insights which are so evident in this collection of writings by Dr. Vikram Sarabhai. It is most appropriate that Dr. Kamla Chowdhry has compiled and edited these papers having worked so closely with Vikram in all his innovative endeavours.

Vikram gave to management a new sense of relevance in India. His perspective, as can be seen from the list of titles, views management in relation to the social and economic functioning of the country and not merely to the limited industrial sector with which it is traditionally associated.

There are many inter-dependent threads of reasoning running through these papers which appear to be the core of Vikram Sarabhai's beliefs in and attitude towards management. Perhaps the most predominant aspect of his beliefs centers upon his attitude towards humanity. All his major themes come back to this—people as individuals, people as working groups, the organisational culture in which people work, people interacting and collaborating across

the boundaries of traditionally delineated tasks and disciplines and people towards whom all this national effort is directed.

The issues he deals with are fundamental. The government combines many roles. It is an entrepreneurial manager in the development of knowledge, in social change and in economic development. It is in this sense a "creator". It is an administrator that endeavours to maintain stability in the nation's operating systems. In this sense it is a "preserver". Yet, in its role of "creator", innovation means discarding the less for the more effective. Its role of "preserver" must therefore be circumscribed by its role of "destroyer". The divine Brahmanical triumvirate tends to be the role of all organised systems. Religion or mythology can ascribe total knowledge to the godhead, but governments are managed by human beings without the ascribed attributes of divinity. A centrally administered system therefore must recognise that it is an agglomeration of many minds which does not constitute a single focal point of total knowledge.

A government will divide its total functioning into demarcated tasks the responsibility for the



accomplishment of which is given to specific groups of people. In some tasks the element of "preservation" will predominate such as in the tasks relating to law and order, and in other innovative tasks "creation" will predominate. Dr. Sarabhai's insightful concern is that the traditional role of government which is concerned with preservation should not impose the inappropriate culture on systems that must deal with innovative tasks. Where the former requires anonymous and impersonal rules and action to prevent or correct wrong-doing, the latter requires the expression of creative minds. The vertical control of hierarchical authority at the one extreme gives way at the other extreme, for example in the case of scientific research institutions, to the horizontal controls inherent in a peer culture. But most governmental development tasks will need a greater degree of horizontal controls through peer interaction and competition. The organisational culture is influenced by the people working in the system and it is their attitudes and assumptions arising from their experience and training which are critical.

This thesis Dr. Sarabhai illustrates with the example of the Atomic Energy Commission in which his predecessor Dr. Homi Bhabha built the organisation around men and built a culture which focussed on the unhampered expression of creative scientists and in which administration serviced the scientific objectives rather than controlled them. Control was essentially through professional commitment and the selection, training, evaluation and development of scientists were directed at such a commitment.

Dr. Sarabhai recognized, however, the serious problems which

any government would face when it moved from preservation to development and innovation in a political democracy. The government lacks experience in the new tasks and the entrepreneurial role it must play tends to be played initially by the traditional "preservers"; hence the early and urgent need to understand the concept of appropriate cultures. Knowing "the business you are in" is a function both of study and experience. Experience is essentially personal and many of the most valuable aspects of experience are lost in attempts to "institutionalize" experience through records and rules rather than through people and attitudes. In a political democracy parliamentary committees, the government audit and other *ad hoc* or semi permanent bodies try to satisfy the need for public accountability. The manager's mistakes are then projected on to a national screen. This in itself can impose an over-cautiousness on the manager's part, but furthermore, in as much as his mistake receives such wide attention, he himself might be replaced or at least controlled more strictly from above. This situation, in which we lose the benefit of experience, Dr. Sarabhai considers, is the result of a lack of understanding with regard to the appropriate relationship between the owner (Parliament and Government) and the manager. The process of learning is an essential part of the process of innovation and a greater understanding is necessary as to how to build and encourage learning in the public system.

In establishing an appropriate relationship between owner and manager the objectives need to be clear and the primary tasks defined. Either through distorted communication or through the distortion of motivating elements, the manager perceives or chooses to perceive as

objectives certain environmental constraints apparent in government policy statements, whether in relation to welfare constraints such as "the model employer", "automation", "labour and employment", or in relation to ownership constraints such as the government audit. There are wide confused areas of managerial discretion in which the manager may be tempted to surrender his judgement or perceive his owners' wishes in ways that are not consonant with the primary economic objective of the enterprise for which he is responsible. It is in this sense that constraints come to be regarded as objectives. The clarity of objectives and appropriate delegation of authority might help the manager in his task, but the delegation as distinct from the abdication of authority requires on the part of the owners a sophisticated understanding of what responsibility means and the self-discipline that makes the delegation of authority real. This in turn relates to the method of control with the need for a greater emphasis on internal, though "open-loop" self-regulatory control systems rather than massive controls imposed by a higher supervisory authority. Such concepts will work if the attitudes and assumptions of those concerned with the system are appropriate and this is more important than mechanistic organizational structures. The idea of a "holding company" has possibilities as a mechanism to insulate the "preservation" culture from the "entrepreneurial" culture but we have examples in India where the mechanism has been ineffective because the required attitudes were not there in the first place to sustain the structure's purpose.

The entrepreneurial role of the government and those who work in it is of altogether a different magnitude

and complexity compared with that of the private industrial entrepreneur. Dr. Sarabhai's breadth of vision, his capability of initiating a new complex activity and his appreciation of new interlinking structures needed for new tasks is well illustrated in Dr. Chowdhry's choice of the paper on "A Nuclear Centre for Agriculture". Problem resolution will always require the simultaneous application of many scientific disciplines. Problems at the national level require the simultaneous work of many national research institutions, each with its particular scientific specialization. Dr. Sarabhai's own imaginative entrepreneurial capabilities are exemplified by his having created an interface structure that enabled these specialized institutions to collaborate in a common approach to critical problems.

The need for such organizational innovations is created by new perceptions of the national tasks to be undertaken and once again raises the perennial problem of making the old order give way to the new. Change in a democratic society is not dramatic in the short term. Dramatic change would require a violent and cataclysmic upheaval. But if a democratic society aims at rapid development the problem that faces the government is to determine the degree of stability which such a society needs and the degree of change that this society can assimilate without losing the basic characteristics of a democracy. Change can tend to accelerate in a geometric progression and there may be some apprehension on the part of those who decide as to whether the acceleration can be controlled. The divergent processes for stability and for change which operate in varying degrees between the many segments of society create for the decision-makers the dilemma



Dr. Sarabhai poses in "The Diverging Human Function". Again he sees the control mechanism working as a horizontal control through "an infinite number of micro control loops spread through the fabric of society". The "preserver" might ask whether such a system can prevent wrong-doing, to which the "creator's" answer would be that the "preserver's" emphasis would inhibit the accomplishment of innovative tasks.

It is worthwhile to think about the questions that Dr. Sarabhai raises. How can the concepts of political democracy and accelerated growth be made compatible? What degree of change can society assimilate? Is change an imposition, a conditioned directive or an expression of the creative individual or groups of individuals? If creativity is to be given scope for expression, can an acceptable control system be devised that has the flexibility which

innovation requires and can yet satisfy a modified concept of public accountability? If so, are those who wield power sensitive enough in managing development functions to realise the attitudinal change that is required in demonstrating the needed sophistication of behaviour?

Dr. Sarabhai was a scientist, an entrepreneur at the national and micro levels, and a manager who believed in focussing tasks on people. Dr. Chowdhry does great service in editing this small volume of Vikram's papers. They cause us to think of developmental tasks in terms of creative and innovative systems. More important, they cause us to think of the people who must manage them and the organizational environment in which they can most effectively function.

—RAVI J. MATTHAI

*Democracy and Development: The Grass-Roots Experience in India* by R.C. PRASAD, New Delhi, Rachna Prakashan, 1971, p. 336.

This rather ambitiously titled book is, actually, a detailed case-study of politics and performance of a Gram Panchayat in Bihar; as such it falls into the category of Panchayati Raj studies which proliferated in the early sixties but failed to produce any visible impact either on the policy-making at the Union and State levels or theory-building in the various social science disciplines. Introduction of Panchayati Raj in India certainly presented a golden opportunity to the social scientists for undertaking empirical studies in rural India and, to some extent, the gauntlet was picked up by scholars belonging to the disciplines of Sociology, Public Administration and Political Science while Economists, Educationists and Psychologists simply ignored this gigantic

transformative innovation in the history of India. Out of the bunch of scholars who did respond to the research challenges posed by the establishment of statutory structures of (local) government in free India, however, only the Sociologists possessed the relevant field-work-skills and analytical frameworks for carrying on village-level depth-studies while scholars belonging to Political Science and Public Administration simply blundered into field-research hoping to apply sociological techniques and concepts and supplementing the data thus collected by simple content-analysis of formal-legal records and documents maintained by these statutory institutions of local government. This research strategy was not something new in the history of these disciplines;

rudimentary attempts to make empirical supplements to data collected from formal-legal documents can be seen in the various studies of rural and urban local self-government made by Indian scholars during the thirties and forties of the 20th century. Political Scientists' excessive preoccupation with the structural dimension of local government, in fact, made this field very popular for earning a 'quick' Ph.D. and the tendency has persisted even after the introduction of Panchayati Raj.

Dr. R. C. Prasad has, indeed, pointedly asserted that "Departing to some extent from this continuing tradition" his study "has drawn heavily on the methods adopted in village studies in sociology and social anthropology" (p. 3); but a detailed perusal of this book makes it clear that the extent of departure (from traditional narrative-descriptive studies in the field of local government in particular and political science and public administration in general) is limited and the author's claim that he has "drawn heavily" on the methods prevalent in sociology and social anthropology must be taken with a pinch of salt. The chapter-scheme of the book as well as the contents of the chapters make it amply clear that Dr. Prasad's degree-research was conducted on the conventional pattern of studies in the field of local self-government and the only departure from tradition is inclusion of some impressionistic field-data collected during a total of two trips to the field. Two field-trips to an institution like a Gram Panchayat might be considered adequate for purposes of scanning the administrative documents and records (budgets, agenda register, meeting register and other official files, etc.), but no Sociologist or Socio Anthropologist would regard this quantum of field-study as adequate for conducting

a village study. The facts that the author belongs to "a village at a short distance" from the Gram Panchayat he selected for study and that he possessed "previous acquaintance with some persons" in the area where he conducted field-work must have certainly eased the author's *rapport* problem but the author nowhere indicates the methods or criteria employed for selecting Awa Gram Panchayat for field-study much less justifying this choice in terms of the existing ideas and issues in the field of Sociology and Social Anthropology. Further, while the author claims to have interviewed "almost all the living persons who were in any way associated with the working of the traditional or the statutory panchayat" (p. 4) he does not specify the nature, and degree of structuring of these interviews. Finally, the author admits that during his two field-trips he was able to attend only one meeting (of the Executive Committee) and meetings of other bodies (e.g. Gram Sabha) were not held during the period of his study in Awa and therefore, he has drawn information about the functioning of these bodies from the minute-books and other relevant records (p. 4). While one must praise Dr. Prasad's candour in laying open his methodological cards one wishes that Dr. Prasad had ventured to claim that he was adopting any other methods than those being currently used by researchers in the field of Political Science and Public Administration and had refrained from the non-sustainable efforts to embellish his field-work with the aura of field-research in Sociology and Social Anthropology.

The book under review, then, is a straight-forward case-study of Panchayat administration supplemented by impressionistic field-data about local-level politics in the context of Awa Gram Panchayat in

Bihar. Such mono-Panchayat studies suffer from many limitations including the defects of unrepresentative sampling and non-cumulative accretion of data, but, at the present stage of development, they serve the vital function of building up an all-India profile of organization and administration of Village Panchayats. Such studies are, therefore, welcome not from the viewpoint of either theory-building or policy-making but from the purely utilitarian angle of developing an inventory of descriptive case-studies for use of advanced students of Political Science and Public Administration. Thus, Dr. Prasad's data-backed description of the composition and working of the Village Assembly (pp. 59-73), the Executive Committee (pp. 74-99), the Panchayat Court (pp. 139-176) can be used as a text for illustrating the problems and prospects of the village-level Panchayati Raj institutions while his analysis of the socio-economic and politico-administrative background of the Chief Executive (pp. 130-138) and the Panchayat Secretary (pp. 178-200) can be used as empirical referents for explaining the role and status of these local-level Panchayati Raj functionaries. Finally Dr. Prasad's painstaking analysis of the budgets and financial administration (pp. 242-275) of Awa Gram Panchayat can be used to illustrate the defects and deficiencies of local finance in India. However, while bulk of the text can thus be used as an illustrative case-study for advanced teaching in the discipline of Public Administration, the advanced students of Political Science (other than those who study Public Administration or Public Administration in India within the fields of Political Science) would be interested in only one chapter dealing with the Panchayat elections (pp. 74-99) wherein Dr. Prasad has tried to probe into the dynamics of rural

politics in Awa Panchayat elections. Local-level electoral politics has remained, by and large, an unexplored area and even Sociologists and Social Anthropologists making mono-village studies have generally ignored the phenomena of Panchayat elections. Dr. Prasad's finding that while the first Panchayat elections in Awa, held in 1964, only resulted in uncontested success of M.D.S., a pre-existent local influential, the 1960 elections witnessed a determined campaign to overthrow M.D.S. and that educated young men in the age-group of 25-35 were able to defeat M.D.S. at the polls is likely to attract political scientists' attention, but the author's conclusion ("The election results indeed embody the peoples' desire for a change in leadership: After decades of pre-eminence of a single person, whose obdurate manners they disliked, the people wanted a new man to run the panchayat in the village" p. 92) beautifully illustrates the weakness of analytical methodology adopted by Dr. Prasad for he himself informs us, in a footnote on p. 45 which has been, obviously, inserted at the time of publication of the book that M.D.S. staged a comeback within a period of 3 years and in the 1963 election he was re-elected as Mukhiya of Gram Panchayat! Political analysis of electoral outcomes is indeed a complex and hitherto underdeveloped branch of Political Science and analysis of local-level elections is likely to defy political scientists' skills unless they can really interpret electoral data in terms of sociological trends because local-level politics is largely a reflex of social parameters like caste, kinship and neighbourhood-territories. Dr. Prasad's efforts in this direction are commendable as he has given a detailed analysis of election campaign and political forces operating in terms of these sociological attributes but, obviously, within the

matrix of degree-research he could not be expected to devote more time and other resources for electoral analysis only.

Finally, the present reviewer would like to draw the attention of Indian administrators and policy-makers to Dr. Prasad's pioneering analysis of the spatial and spatio-sociological dimensions of Village Panchayats (pp. 46-58). Dr. Prasad's empirical report that the incorporation of two revenue villages, Awa

and Pato, in a single Gram Panchayat has resulted not only in economic discrimination against the smaller of the two, viz., Pato but has also given rise to a situation in which residents of Pato are neither represented in the elective bodies nor do they care to attend the all-inclusive Village Assembly raises serious doubts about the utility of multi-village panchayats.

—P.C. MATHUR

*The Management Process* by Dr. RUSTOM S. DAVAR, Progressive Corporation Pvt. Ltd., Bombay, Second Edition, 1973, p. 707, Rs. 21.

This is a cheaply priced paper back on the management process. This is the second edition of an earlier differently titled book which we have not seen. So comparison between the two is not possible.

Better management of available resources, talents and knowledge has enabled developed nations to achieve higher standard of material prosperity. For developing countries also management is crucial to their efforts to achieve predetermined goals. In our country the shortage of able managers is reflected in the vacancies of high managerial posts in public sector undertakings for long periods. The role of managers has become increasingly difficult because of the critical economic situation of the country. In this context the attempt by an Indian author to offer a systematic body of knowledge on management science to those who are expected to perform "the management art" is really welcome. It is also claimed by the author that Indian examples have been incorporated in the book to make it useful to Indian managers.

Management, it has been claimed is as old as Moses. For "Jethro's (his son-in-law) advice to Moses

is a surprisingly lucid example of the scalar principle of organisation" (p. 39). In fact its evolution has been traced to the days of Pharaohs and Socrates (p. 21-22). But modern management science is of recent origin. It is really a 20th century phenomenon. For its invisible impact was perceived and appreciated in a meaningful way by Taylor in twentieth century only. There were others before and he certainly benefited from their experiences. But his book for the first time emphasised that management should be treated as a separate discipline. It is mostly in the United States of America that the operating principles were gradually perceived, practised and preached.

So when Dr. Rustom Davar draws heavily on American Theories, we cannot blame him. This book is an introductory theoretical treatise on management based on American knowledge. A student at a graduate level in an Indian University will find it very useful. The author traces briefly the historical evolution on management science. He has examined the meaning of management and pointed out the social responsibility of managers. He has talked about the management philosophy and the

various schools indicating various approaches to the problem of management. He has also very briefly mentioned about management education in India. He has introduced the concept of management process. For, management science is really study of the management process at various levels in an organisation and in various functional areas.

Then he has discussed the various components of management like planning, organising, staffing, motivating and controlling. Functional areas like marketing, production, finance and personnel have been discussed. The concepts of planning, organising, staffing, motivating and controlling have been analysed with reference to their applicability to these specialised areas. Techniques like network analysis (PERT/CPM), linear programming, etc., have been introduced in an elementary way. Each chapter gives mostly the views of American exponents on the subjects. The concepts are defined and their essentials are discussed. In most of the chapters relevant information about Indian companies in the public and private sectors is provided.

All these will be very helpful to graduate students on Business Administration and those managers who have no basic knowledge of the management process. Unfortunately the author in his sincere enthusiasm has addressed the book (*i.e.*, Preface) to managers who want to make things happen. It is here that the book is misdirected. Its author hopes more than what the book can achieve. Management science itself is in a developing stage. So the 'formulas' and 'commandments' prescribed by Dr. Rustom Davar may not help the managers to sort out all their difficulties. For they are of an elementary nature.

Then about the Indian context. The book informs us about the Indian situations rather in a superficial way. Again, all the concepts and theories developed in America may not be relevant to the Indian situation. A highly industrialised society like the U.S.A. and an agriculture dominant society like India will have different priorities and different problems. The technologies to be applied will be dissimilar. Actually a constant complaint against the Indian manager is his lack of awareness of the environment in which he operates. An economy characterised by "Stagflation" will require of its managers massive efforts in a variety of ways to push itself to greater material prosperity. We do not say that knowledge developed in other countries should be discarded. When the author claims that his book will help the Indian managers, we feel that he should have given detailed analysis of live situations for claiming that distinction. The case examples are simple statements of what particular companies are doing. These informations do not reveal that they have been analysed to establish or question their validity, as a sound management approach in a particular field. They cannot be compared to the cases prepared by American Universities for teaching purposes. Thus even as a text, the book has this glaring deficiency. For example, we have been told as to the mode of performance appraisal at Indian Tobacco. But we do not know how effective it has been in terms of the various personnel management goals that the company might have set for itself. Actual happenings in such situations will have to be observed and recorded and compared with professed ideals so that the students and managers utilising this book can judge for themselves which counsel is worth following in a given situation. The author did make some



survey pertaining to marketing managers as he has said in the book. Available data on various companies can be studied to assess their performance in different management areas. This will enable us to ascertain what kind of management process is developing in India and to build a theory relevant to Indian context by modifying, adapting or replacing theories and concepts already developed in U.S.A. and elsewhere. We do not deny that some goals are universally accepted. A few theories will also have universal application. But management being a human endeavour, the socio-political background of its operation will have a distinct bearing on it. For example, the author himself has admitted, and rightly so, that India has a seller's market. That is why our unit cost of production is high and quality of goods unreliable. We are unable to compete at international level. We are already on our way, as the author says, to a professionalised industrial situation. From a personal family, house system, we are heading to an impersonal, professionalised managerial system accelerated by the introduction of the public sector and joint sector concepts. Such a manager will need more intimate knowledge of things around him and will have to be a greater trouble shooter. The leadership styles, for example, will not be only what has been described in the book. The impact of tradition and trade Unions, political environment and social attitudes will create the need for many new leadership styles to enable the managers to cope with dynamic situations. The author has not said how it is really happening in the Indian setting. He has given the example of Indian Tobacco. But in fact, he has simply informed us what Indian Tobacco is saying for itself and not what has been observed about Indian Tobacco. This is the basic deficiency of

this book. Even as a text book on management, it requires improvement in this direction.

Again, there are too many quotations. They really do not render any greater help to a student to understand the essentials of concept specially when their value has not been analysed by the author. Views offering appreciations of a situation or concept or accepted schools of thought indicating a new line of thinking should be incorporated. But so-called definitions of a number of authors offering almost similar expositions can be conveniently avoided.

The get up is all right for the price. The cartoons are a really welcome feature. The charts and forms of companies will certainly be helpful. Careful editing and proof-reading could have helped to avoid a number of unhappy constructions and printer's devil. A few examples are given here by way of illustration. Please note that comments below in brackets wherever given are ours.

"It is results such as profitability and smooth running of the enterprise which will ultimately determine the effectiveness of the structure adopted" (p. 213).

"However, a good organisation is a foundation" (For what?) p. 213.

"hot instead of not at 15th line", p. 215.

"The number one problem of management in U.S.A. and India is management development" (p. 250).

(As if it is not the concern of others)

Illustrative this—p. 410. (should have been illustrative of this)

"Thus actions speak louder than words and here an environmental

disincentive existed caused by efforts of incentive which were found to be false" (p. 410).

Even if Dr. Rustom Davar's ESCORTS award winner book has a number of deficiencies, it can be profitably used by graduate students of management studies. Those business managers who have not had

formal training in the field of business management can utilise the book to acquaint themselves in an elementary way with theoretical concepts pertaining to their fields of work. The book also contains a good bibliography on management literature.

—P. K. DAS

*State and District Administration in India* by DR. J. D. SHUKLA, National Publishing House, Delhi.

This book is a study of district and state administration in India. It deals with the subject in depth and in detail. At the same time it is also a comparative study and variations in the administrative set-ups in different states and their implications have been noted and compared. An administrative organisation consists of two inter-linked parts: the functional structure and the staffing pattern. The structure is more stable, it is like the bones; the staffing pattern is more liable to change, it is like the flesh. The author could have written this book by describing only the structure and main functions of departments and left it at that. But that would not have given a living and concrete picture of administration. The author has therefore described not only the structure and main functions and duties of an organisation or department but has also mentioned the officials manning the organisation at different levels together with their designations. Thus a complete picture has been presented; easy to grasp. It is also a comparative picture; the reader would know that the patwari is known as *Kanak Pillai* in Tamil Nadu, *Karnam* in Andhra, *Shanbhog* in Karnatak, *Talati* or *Kulkarni* in Maharashtra and *Mandal* in Assam. And the same with other officials. Comparative variations in

their duties, powers and status are also indicated.

To give such a complete and concrete picture, it was necessary to fix a point in time, as minor details especially connected with staffing and the size of a department keep on changing. The author has chosen the middle point of this century; and this, it appears, for two reasons. In the first place, at this point of time the administration was pretty stable in the sense that many experiments in change had not been tried; these came later. Secondly, such a method has a historical value; at the middle point of this century, the administration had retained its characteristics which it had acquired over a long period of evolution; it had certain features which have a historical importance. Therefore what is described in the book partakes of the nature of a historical record also and has a permanent value for the students of Indian administration. Thus a two-fold objective has been achieved by the method adopted in writing this book. The book is both history and at the same time a guide to present-day administration. In the Introductory Chapter are mentioned some of the more important changes which have recently taken place in various departments and administrative set-up.



The first two chapters deal with the land systems and the settlement. The detailed description given of these subjects is not only important as a historical record but is essential for understanding how land systems have shaped and influenced the structure of administration. In the chapter on settlement are also described the system of relief on occurrence of natural calamities and the mode of collection of land revenue.

The book is notable for laying great stress on village administration. The land records system is therefore described in great detail together with the "correction" machinery and differences as between Madras, Bombay and northern India are brought out. The detailed description of district administration through its five levels—Patwari, the Kanungo, the Tehsildar, the SDO and the Collector—gives a full and concrete picture of what the district administration is and how it is run. Variations have been mentioned such as prevailed in Punjab and Bengal. Such a detailed account of district administration is not to be found in any book on the subject published so far.

Then come the departments of the state government. Three chapters have been devoted to the Police, one of which deals with the relations between the Police and the Magistracy, containing information which will be new to many readers. All the major departments like the Jails, Judiciary, Medical and Health, Education, Agriculture, Cooperatives, Animal Husbandry and Veterinary services, Public Works, Irrigation, Electricity, L. S. G. E. D and Forests, have been given a chapter each. Full details of structure, functions and staffing have been given enabling the general reader to get a living picture of what a department is and how it functions.

Five chapters have been devoted to self-governing local bodies; these constitute an important element in the state administration. One chapter describes the organisation and functions of rural and urban councils and governmental control over them; another deals with Union Boards; others deal with *Janapads* and the *Panchayati Raj*. One chapter contains some general reflections and observations on local self-government which would interest both the student of local self-government as well as the general reader.

One chapter deals with the Divisional Commissioners and the Board of Revenue which stands at the apex of what is known as the Revenue and General Administration. Their history is traced and the implications and importance of their functions have been brought out.

The last chapter deals with the state Government and the state secretariat which is at the apex of the state administration. The chapter describes in detail the organisation and functions of the state secretariat and its procedure of work. It ends with a discussion of the controversial subject whether a generalist should be secretary to government or a technical head should be promoted to that post.

This book has several merits. It not only gives a complete, comprehensive and detailed account of the district and state administration; it also traces the history of various institutions which makes for better understanding. The book is not merely descriptive but contains critical analysis of the administrative set-up and administrative practices. It examines why an institution is what it is and why it functions in a particular way. It contains some very realistic assessments of the worth of the administrative set-up

and the principles on which it is based.

The author writes with advantage that often flows from study and work mixed together. To his long administrative experience in the I.C.S. he joins the fruits of his academic studies which he has continued. He was educated at Allahabad, London and Oxford Universities and holds the degree of Doctor of Philosophy from the Allahabad University.

This book will be found

interesting and informative by the general reader who will get a real insight into the administrative set-up and its practices which affect him so intimately and over so wide a field these days. The students of Public Administration in our Universities and Colleges will find this work especially useful.

Sponsored by the IIPA the book is being published by the National Publishing House, Delhi.

—T. N. CHATURVEDI

*Women's Movement in India* by DR. PRATIMA ASTHANA, Delhi, Vikas, 1974, Rs. 36.

The book gives a synoptic view of the women's awakening and development of the women's movement in this country. After tracing the position of women in the ancient Indian society it refers to the impact of the West in the 19th century and broadly traces the attempts at social, political, economic and legal reforms aimed at raising the status and position of Indian women. The social reform and spread of education have constituted the bedrock of women's awakening in the country. The author has an interesting chapter on what she calls 'the feminist movement at work'. The book gives some vivid sketches not only of the reform movements like the Brahmo Samaj, Arya Samaj, but also of some of the prominent leaders and reformers, both men and women, who have contributed to the amelioration or uplift of the plight of women. The author has also at some length dilated

on the role of women in the struggle for political freedom. It may not be possible to agree with her that the women's movement has become a 'spent force' with the attainment of freedom. It is well-known that the struggle for equality of status continues though in different forms and channels. It has also to be seen if "the feminist ideals are foreign to the spirit of Indian women's movement," though the earlier leaders certainly kept in mind "the ancient ideals and values of Indian culture, the high spirituality and the spirit of service and devotion that women symbolize". Based on extensive use of primary and secondary sources, the book has a comprehensive bibliography and makes a useful contribution to the assessment of an important aspect of what is commonly called, the Indian Renaissance.

—T. N. CHATURVEDI

*Managerial Compensation and Motivation in Public Enterprise* by PROF. LAXMI NARAIN, Oxford & IBH Publishing Co., New Delhi/Bombay/Calcutta.


This is one of the studies sponsored by the Research Programmes Committee of the Planning

Commission. Prof. Laxmi Narain has written a good deal on problems of public enterprise. The area of

morale and motivation in management and administration is a vital one. It acquires some additional dimensions in the public or governmental sector. While fairly comprehensive studies have been conducted on the subject in the West—not necessarily in public sector for obvious reasons—not much attention has been paid to identify the factors which either promote or inhibit motivation and morale in management. The volume under review is a pioneering effort from this angle. There is need for increasing field research in this area. The study was sustained by a well-structured questionnaire. After referring to the methodology and design of research in the first chapter, the next two chapters dilate on the condition and

inputs that impinge on motivation in differing degrees as well as the availability of more tangible benefits at present both in the public as well as private sector. While the final chapter embodies a meaningful summary of the totality of findings, the first chapter is rather an important one for the country as it deals with the psychological factors, the questions of attitude and approach to the public sector by the management itself. While one may not agree with all of his conclusions, the author has made a valuable contribution to the study of morale and motivation in an expanding sector of economy.

—B. C. MATHUR



## BOOK NOTES

*The Ahmediya Movement* by  
SPENCER LAVAN, Manohar Book  
Service, Delhi.

The Ahmediya community has been more than once a centre of controversy in the Indian sub-continent. Only recently the Government of Pakistan by legislation declared it to be a minority community, thus conceding the demand of certain sections in that country that the Ahmediya be placed beyond the pale of the orthodox Islam. This book provides both 'a history and perspective' of the movement. The study is based on extensive research, of both original and secondary sources. The author has traced out the evolution and organisation of the Ahmediya movement from its beginning and has tried to assess its place in the context of the various religious movements in the 19th century India. The career and activities of the founder Mirza Ghulam Ahmad have been described with critical insight. The author has thrown light on the polemics and conflicts against the Arya Samaj, Sikhs, Christian missionaries and Sunni sect of Islam. The political role, that the Ahmediyas have played, has also been amply highlighted. In the concluding chapter, a perceptive appraisal of the movement and its development has been printed. Elegantly printed, the book has a

comprehensive bibliography and glossary of terms which will be of use to the Western readers. All in all, it is an erudite work and will be of interest to students of comparative religion, history and political development.

—S. C. VAJPEYI

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*Planning in India* by H. V. R.  
IENGAR, Macmillan, Delhi and  
Bombay.

The book under consideration consists of a revised version of Dr. John Mathai Memorial lectures delivered by Shri H. V. R. Iengar under the auspices of the Kerala University. With his background and experience, Shri Iengar is adequately suited to sum up the experience and the contemporary planning scene in the country. In one of the chapters he makes a comparative approach to the pattern of Chinese Planning and makes the significant observation "that the problem which we have in India, namely, of maldistribution, does not arise in China". He has some perceptive and insightful comments and suggestions to make regarding the problems of maladministration, corruption, the shape of the Fifth Plan and how to counter inflation, the role of economists, etc. He goes on to advocate

the setting up of a Council of Economic Advisers. He comments hopefully: "If such a council were set up and the Government were really responsive to its advice, the possibilities are that the Plan would become a truly national effort and be more likely to be productive of the results which we all hope for than the present attempts which have led merely to frustration and cynicism." While we may not necessarily agree with the author's approach and analysis in its entirety, a perusal of the book would be rewarding for the students of planning process as well as policymakers. For a book of 84 pages, it is rather highly priced. It may be worthwhile for the publishers to bring out a paper edition so that it is within reach of the reading public in this country.

—B. C. MATHUR

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*From Ganga to Volga* by  
MANMATH NATH GUPTA, Ashish  
Publishing House, New Delhi.

The author is a well-known revolutionary who has played an important role in the freedom struggle. In the present book he has recorded the impressions of his two visits to the U.S.S.R. It is anecdotal as well as analytical. As the publisher's blurb rightly claims, "it is not a travelogue in the ordinary sense of the term. It is the reaction of a highly sophisticated and sensitive mind." One would only wish that proof reading had been more rigorous. With a view to larger circulation, it is better if books of this type are

produced in paper cover to reduce cost of production. It will be of interest to all those who, in brief, want to study the socio-economic conditions in the U.S.S.R.

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*Setting Up A Small Scale Industry in Rajasthan—A Systems Study* by  
V. K. GAUR, IIPA Rajasthan  
Regional Branch, Jaipur.

Distributors: Aalekh Publishers,  
Manohar Building, M. I. Road,  
Jaipur.

The problems that a prospective entrepreneur faces while deciding to set up a small scale industry in the country are of manifold nature. Many committees have made suggestions and recommendations which have helped to improve the situation to some extent. But much more remains to be done both operationally and diagnostically. The problems of administrative coordination unfortunately persist. The present study after surveying the position in this regard makes some valid proposals of both policy and procedural kind which merit consideration. The author has shown understanding and insight in his study of the field situation. The Rajasthan Regional Branch deserves commendation for sponsoring and bringing out this useful publication.

\* \* \*

*Public Administration in India* by  
Dr. C. P. BHAMBHRI, Vikas, Delhi.

Dr. Bhambhri has written widely on different aspects of Public

Administration in this country. This book, primarily intended for university students in Public Administration and for general readers, consists of ten chapters and a select bibliography. After describing the broad institutional framework, he gives an account of the organisation of the Central Secretariat. He has discussed the problems — organisational, institutional and procedural — of the Civil Service. The administration of the planning process and state undertakings has also received attention. The chapter on Financial Administration is fairly comprehensive. In the chapter dealing with Area Administration he takes note both of the conventional administrative set-up in the district as well as the Panchayati Raj institutions. He has also succinctly discussed the institutions and methods which exist to ensure accountability in a democratic political set-up. The concluding chapters on Administrative Reforms and the Image of Indian Administration aim at a wide coverage and are informative. Dr. Bhambhri believes that colonial orientation of the bureaucracy inhibits the meaningful discharge of the present day tasks of development. Whether one agrees with his criticism and conclusions or not, his analysis always stimulates thinking. The book is very well documented. But one gets the feeling that too much has been attempted in too few pages. Many views expressed by way of comments or suggestions need greater elaboration in fairness to the author himself. On the whole, it presents a lucid, informative and useful approach to

the study of Public Administration in India.

—B. C. MATHUR

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*Developing Society and Police*  
Ed. by G. RAM REDDY AND K. SESHADRI (Sole Distributors: Booklinks Corporation, Narayanguda, Hyderabad).

The volume consists of twenty papers on different aspects of police administration contributed by experts and academicians to a seminar organised by the Department of Public Administration, P. G. Centre, Warangal (A.P.). The organisers deserve all commendation for their effort. The literature regarding police administration is not easily available in this country. Much of the material lies scattered in the reports of the Police Commissions, Committees or other governmental documents. The present volume makes a very useful contribution to the study of Police Administration by providing a forum for interaction by various viewpoints and experience. The problems of the police administration have been considered in a wider context — developing economy and a democratic political system. In a compilation of this nature, a certain element of overlapping is unavoidable. The quality of the papers contributed also necessarily varies. However, the problems of police organisation, rule of law, relations with the community and the politicians, social structure, recruitment and training as well as the broader function of the police as a



social service have been discussed and suggestions made to improve both the operational capability as well as the image of the police in this country. A brief resume of the discussion has also been included. The Editors have provided a thoughtful and perceptive introduction to the volume which enhances its usefulness. The book provides a stimulating and useful survey of an important area of Public Administration.

—S. C. VAJPEYI

\* \* \*

*Political Trouble in India* by H. W. HALE. *The Extremist Movement in India* by J. N. VAJPEYI, Chugh Publications, Allahabad.

The first book is a reprint of a confidential publication brought out under the auspices of the Intelligence Bureau of the then British Government. It deals with the growth and ramifications of the revolutionary or terrorist movement in India during 1917-37. Though heavily biased, it does provide a mine of information to the student of Indian Freedom movement for purposes of further study and research. The second volume is a comprehensive and analytical study of the revolutionary phase of the struggle for emancipation from the British rule. As the author says, it is based "largely on original and primary sources collected from official and non-official sources". He has divided the book in nine chapters. After tracing out the background, he deals with the Bengal Partition, the role of Tilak, B. C. Pal, Lajpat Rai,

Aurobindo as well as Mrs. Besant to indicate the genesis and direction of extremist politics in the country. He thereafter analyses the genesis and nature of what is called the revolutionary phase of the national movement from its beginning till the attainment of freedom. He also devotes attention to the role of youth as regards the demands for complete Independence and the beginnings of the Socialist and Communist thought and action in the country. It would have added to the usefulness of the book if the author had given in a concluding chapter an overall assessment of the contribution of Indian Revolutionaries to the achievement of freedom in the country. The book is well documented and has a good bibliography. Some printing errors and the lack of a suitable Index detract from its usefulness. On the whole, the author has made a comprehensive and analytical study of the Extremist Movement in the politics of freedom movement. The book will be of use not only to the general reader but also to students of Indian history and political as well as constitutional development.

—B. C. MATHUR

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*Electoral Politics in the Indian States: The Communist Parties of West Bengal* by JOHN OSCGOOD FIELD AND MARCUS F. FRANDA, Manohar Book Service, Delhi

This is the first of a series of four volumes that the publishers propose to publish regarding the politics of the ballot box in the Indian States.



The studies have been conducted under the auspices of the Centre for International Studies at the M.I.T. The present volume analyses the political behaviour and trends in the context of the recent elections in West Bengal. Analysing the statistical data in depth, the volume makes a significant contribution to the study of political development and democratic processes in the country. The publishers merit commendation for a neatly printed and useful publication.

— K. VENKATARAMAN

\* \* \*

*Spontaneous Revolution: The Quit India Movement* by FRANCIS A. HUTCHINS, Manohar Book Service, Delhi.

The 1942 Movement along with the I.N.A. and the R.I.N. Mutiny constitute the culmination of the last phase of the freedom struggle in India. Being comparatively a recent event in contemporary history, a scholarly and dispassionate assessment has yet to be made about its course and consequences. Not much research has been done on the subject so far. The present volume is a useful attempt in this direction. The author has, however, devoted too much attention to the earlier developments of the nationalist movement by way of providing the necessary background. He has some comments to make about Gandhiji's role and contribution which probably need to be viewed in the proper perspective. In spite of these limitations, this narration of the Quit India movement is reasonably comprehensive and its critique as well as assessment quite

stimulating. The book is a scholarly contribution to the study of fascinating phases of our national struggle.

— K. VENKATARAMAN

\* \* \*

*Administrative Levels and Functional Differentiation—A Comparative Study of India and the U.S.* by Dr. RAMESH K. ARORA, IIPA, Rajasthan Regional Branch, Jaipur.

The title of the book broadly identifies its scope as well as the author's approach. As the author observes, "This monograph is an attempt to present a comparative analysis of governmental functions in relation to the levels at which they are performed in the two largest democratic federal systems in the world—the U.S.A. and India." The author examines the institutional structures, the constitutional arrangements and the issues in the Federal-State Relations. Besides the relationships and linkages between the State as well as local Government levels have been examined in the broad constitutional context and the political system. It is not purely descriptive. The author brings to bear upon an analytical mind to the examination of the complexities of 'the administrative systems and sub-systems of both the countries'. The author has made a useful contribution to a comparative study of what has come to be known as "area administration". The monograph is well-documented. It is satisfying to find that the brochure is being brought out in Hindi also by the Rajasthan Hindi Academy.

# NAGARLOK

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